transcontinental

PRESS RELEASE

For Immediate Release

TRANSCONTINENTAL SEES STRONG IMPROVEMENT IN PROFITABILITY FOR FOURTH CONSECUTIVE QUARTER AND RESUMES ORGANIC GROWTH IN REVENUES

- Growth of 18% in adjusted operating income before amortization compared to second quarter 2009 despite 4% decrease in revenues; on a comparable basis, revenues grew 2%.
- Growth of 14% in adjusted net income applicable to participating shares; on a per-share basis, increase from $0.37 to $0.42.
- Increase of $211.3 million in net income applicable to participating shares, from a loss of $144.3 million to a gain of $67 million; on a per-participating share basis, from a loss of $1.79 to a gain of $0.83.
- Acquisition of LIPSO, a Canadian leader in mobile solutions, enhancing the Corporation's marketing communications offering and reflecting growth strategy for new media and digital platforms.
- As part of the strategic development of solutions offered to local communities in Canada, launched the pre-shopping websites dealstreet.ca and publisac.ca, an online reputation management tool for businesses on weblocal.ca, and four community papers in Quebec.
- Continued to implement a hybrid and Canada-wide newspaper and flyer printing platform that will become fully operational before the end of 2010.
- Concluded the sale of almost all of Transcontinental's direct mail assets in the United States to IWCO Direct, for net proceeds of $105.7 million.
- Substantially improved the Corporation's financial position with a ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization of 2.08 as at April 30, 2010, versus 2.40 as at January 31, 2010 and 2.59 as at October 31, 2009.

Montreal, June 8, 2010 – During the second quarter of fiscal 2010, Transcontinental resumed organic growth in revenues and generated, for the fourth quarter in a row, an increase in adjusted operating income before amortization. The printing of the *San Francisco Chronicle* daily, the contribution of the Marketing Communications Sector and the stabilization of the market in certain traditional segments all made a specific contribution to organic growth in revenues. The solid advances in operating income stem from the full impact of the rationalization measures implemented in fiscal 2009 and continuous improvement of operational efficiency. Transcontinental also strengthened its financial position, which enabled it to invest in the digital development of its Media Sector and its marketing communication operations, as shown by the acquisition of LIPSO, a Canadian leader in mobile solutions.

"I am very satisfied with our second quarter results and the performance of the past four quarters, which have all been higher than the previous comparable quarters," said François Olivier, President and Chief Executive Officer of Transcontinental. "We are systematically building the new Transcontinental by accompanying our customers with marketing strategies based on advertising personalization and the new communication platforms, while strengthening our traditional core business, which still provides extremely effective marketing tools. This strategy, combined with our employees' efforts to innovate and improve every day, will allow us to take full advantage of the opportunities that are opening up in our niches."

Transcontinental continued to improve its financial position during the quarter, with a ratio of net indebtedness (including the securitization program) to adjusted operating income before amortization of 2.08 at April 30, 2010, versus 2.40 as at January 31, 2010 and 2.59 as at October 31, 2009.

Financial Highlights

In the second quarter of 2010, Transcontinental generated consolidated revenues of $510.0 million, down 4% from $531.1 million in the same quarter in 2009. Excluding divestitures of publications, plant closures, the paper effect and the exchange rate effect, revenues were up 2%.

Adjusted operating income before amortization, which excludes unusual items, rose 18%, from $77 million to $91 million. The increase stems mainly from the full impact of the rationalization measures implemented in fiscal 2009, improved equipment productivity, and the contribution from printing the *San Francisco Chronicle*.

Net income applicable to participating shares was up $211.3 million, from a loss of $144.3 million in second quarter 2009 to a gain of $67.0 million in 2010. This increase is primarily due to impairment of goodwill and intangible assets and impairment of assets and restructuring costs in second quarter 2009, combined with a gain on the sale of almost all the assets of the Direct Mail Group in the United States on April 1, 2010 and the increase in adjusted operating income in 2010. On a per-participating share basis, net income applicable to participating shares went from a loss of $1.79 to a gain of $0.83.

Adjusted net income applicable to participating shares was up 14%, from $30.0 million in 2009 to $34.3 million in 2010. On a per-participating share basis, adjusted net income applicable to participating shares also increased 14%, from $0.37 to $0.42.

Lastly, adjusted operating income margin before amortization was up appreciably, from 14.5% in 2009 to 17.8% in 2010. The increase is mainly due to the full impact of the rationalization measures implemented in 2009 and continuous improvement in operational efficiency.

In the first six months of fiscal 2010, consolidated revenues were down 7%, from $1.10 billion to $1.02 billion, while adjusted operating income before amortization grew 26%, from $136.2 million to $172.1 million. Net income applicable to participating shares went from a loss of $150.7 million in the first half of 2009 to a gain of $93.2 million in the same period in 2010; on a per-participating share basis, net income applicable to participating shares went from a loss of $1.87 to a gain of $1.16.

Adjusted net income applicable to participating shares rose 24%, from $49.3 million to $61.2 million; on a per-participating share basis, adjusted net income applicable to participating shares also rose 25%, from $0.61 to $0.76.

For more detailed financial information, please see *Management's Discussion and Analysis for the Second Quarter ended April 30, 2010* at www.transcontinental.com, under "Investors."

Operating Highlights

Below are the main operating highlights to date.

- In response to growing demand from its customers, Transcontinental enhanced its marketing communications solutions that use new media and digital platforms by acquiring LIPSO Systems on April 30, 2010. LIPSO is a Canadian leader in aggregated mobile solutions encompassing connectivity, transaction management and applications development. This acquisition allows Transcontinental to add several new key services to its marketing communications offering, including cell phone bar-code reading, electronic couponing for retail sales and electronic ticketing for transportation and entertainment.

- In the second quarter, the Media Sector furthered the strategic development of its solutions for local communities in Canada by officially launching the pre-shopping websites dealstreet.ca and publisac.ca, which distribute thousands of geographically specific retail discounts to consumers every day. The business search site, weblocal.ca, also launched the first online reputation management tool for advertisers who subscribe to its services.

- Providing solutions for local communities is an important area of growth for Transcontinental. Thus, four new community papers and their websites were launched in Quebec: *Rive-Sud Express.ca*, which serves Longueuil, Brossard and Saint-Lambert on Montreal's South Shore; *Point de vue Sainte-Agathe* and *Point de vue Mont-Tremblant*, in the Laurentians; and *Abitibi Express* in Val-d'Or and Amos in Abitibi. These launches fulfill consumer demand for Transcontinental to introduce a local and regional paper that would include, among other things, input from "citizen contributors." These new papers, combined with new digital services, will also bring the benefits of enhanced media tools to local businesses and their respective markets.

- In print media, Transcontinental launched the first business-oriented French-language *bookzine* in Canada: *PREMIUM – l'intelligence en affaires.* This high-end bi-monthly publication is aimed at business executives and combines the best of book and magazine. It rounds out Transcontinental's portfolio of business publications.

- With its innovations and state-of-the-art equipment, Transcontinental is increasing its market share in newspaper and flyer printing. In recent months several new customers have been added to its Canada-wide flyer printing and distribution network. In the United States, the new plant in Fremont, California, where printing of the *San Francisco Chronicle* is running smoothly, has won a new customer, a publisher of community newspapers in the San Jose area; the plant started printing one of these newspapers in April. It is also business growth that is driving the development of a

hybrid platform to print newspapers and flyers being set up under a $1.7 billion, 18-year contract with *The Globe and Mail*, a first in Canada. The platform will be operational before the end of 2010.

- After releasing its first Sustainability Report based on Global Reporting Initiative (GRI) standards in February 2010, Transcontinental continued to affirm its leadership in sustainable development. In the second quarter 2010, its Constructo business unit launched voirvert.ca, the first French-language website dedicated entirely to sustainable and environmental building practices in Quebec. This site is specifically designed to meet the needs of professionals and managers working in construction. Transcontinental's commitment to sustainable development also earned it the annual Best of Show award for the most environmentally progressive printing company overall. It received this honour, along with the Gold for "Most Environmentally Progressive Printer in Canada," 500+ employees, at the fifth annual Environmental Printing Awards organized by *PrintAction* magazine. Lastly, in the wake of the recent historic agreement to conserve the boreal forest, Transcontinental's paper purchasing policy was recognized for its major contribution to preservation efforts. The boreal forest agreement, signed by 21 major forest companies and nine environmental groups, seeks to preserve a large area of the boreal forest, to protect the endangered woodland caribou, and to apply the highest environmental standards to forest management.

Reconciliation of Non-GAAP Financial Measures

Financial data have been prepared in conformity with Canadian Generally Accepted Accounting Principles (GAAP). However, certain measures used in this press release do not have any standardized meaning under GAAP and could be calculated differently by other companies. The Corporation believes that certain non-GAAP financial measures, when presented in conjunction with comparable GAAP financial measures, are useful to investors and other readers because that information is an appropriate measure for evaluating the Corporation's operating performance. Internally, the Corporation uses this non-GAAP financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP.

The following table reconciles GAAP financial measures to non-GAAP financial measures.

Reconciliation of non-GAAP financial measures
(unaudited)

(in millions of dollars, except per share amounts)	Three months ended April 30 2010	Three months ended April 30 2009	Six months ended April 30 2010	Six months ended April 30 2009
Net income (loss) applicable to participating shares	$ 67.0	$ (144.3)	$ 93.2	$ (150.7)
Dividends on preferred shares	1.7	-	3.4	-
Net loss (income) related to discontinued operations (after tax)	(34.7)	2.3	(32.9)	16.2
Non-controlling interest	-	(0.1)	0.3	0.2
Income taxes	10.7	(13.6)	15.5	(16.1)
Discount on sale of accounts receivable	0.3	1.4	0.9	3.1
Financial expenses	10.5	8.7	20.5	16.1
Impairment of goodwill and intangible assets	-	169.3	-	169.3
Impairment of assets and restructuring costs	2.8	23.9	4.7	40.4
Adjusted operating income	58.3	47.6	105.6	78.5
Amortization	32.7	29.4	66.5	57.7
Adjusted operating income before amortization	$ 91.0	$ 77.0	$ 172.1	$ 136.2
Net income (loss) applicable to participating shares	$ 67.0	$ (144.3)	$ 93.2	$ (150.7)
Net loss (income) related to discontinued operations (after tax)	(34.7)	2.3	(32.9)	16.2
Impairment of assets and restructuring costs (after tax)	2.0	17.3	3.3	29.1
Impairment of goodwill and intangible assets (after tax)	-	154.7	-	154.7
Unusual adjustments to income taxes	-	-	(2.4)	-
Adjusted net income applicable to participating shares	34.3	30.0	61.2	49.3
Average number of participating shares outstanding	80.8	80.8	80.8	80.8
Adjusted net income applicable to participating shares per share	$ 0.42	$ 0.37	$ 0.76	$ 0.61
Cash flow related to continuing operations	$ (57.4)	$ (23.6)	$ (0.8)	$ 9.2
Changes in non-cash operating items	(128.1)	(74.2)	(134.0)	(91.0)
Cash flow from continuing opereations before changes in non-cash operating items	$ 70.7	$ 50.6	$ 133.2	$ 100.2
Long-term debt			$ 786.7	$ 746.8
Current portion of long-term debt			5.9	175.3
Cash and cash equivalents			(14.6)	(6.8)
Net indebtedness			$ 778.0	$ 915.3

Corporate Affairs

On April 1, 2010, having met U.S. regulatory requirements, Transcontinental announced that it had concluded the sale of almost all of its direct mail operations in the United States to IWCO Direct, a U.S. company headquartered in Minnesota. The agreement to sell the assets was announced on February 10, 2010, subject to regulators' approval. The facilities are in Warminster and Hamburg in Pennsylvania, in Fort Worth, Texas, and in Downey, California. The transaction resulted in net proceeds of $105.7 million. The sale reflects Management's decision to focus on the Corporation's most promising core business operations and on the development of digital products and services. Transcontinental is still the leader in direct marketing in Canada.

Dividend

At its June 8, 2010 meeting, the Corporation's Board of Directors declared a quarterly dividend of $0.09 per participating share on Class A Subordinate Voting Shares and Class B shares. These dividends are payable on July 22, 2010 to participating shareholders of record at the close of business on July 2, 2010. On an annual basis, this represents a dividend of $0.36 per participating share.

Furthermore, at the same meeting, the Board also declared a quarterly dividend of $0.4207 per share on cumulative 5-year rate reset first preferred shares, series D. These dividends are payable on July 15, 2010. On an annual basis, this represents a dividend of $1.6875 per preferred share.

Additional Information

Upon releasing its quarterly results, Transcontinental will hold a conference call for the financial community today at 4:15 p.m. (ET). Media may hear the call in listen-only mode or tune in to the simultaneous audio broadcast on the Corporation's Web site, which will then be archived for 30 days. For media requests for information or interviews, please contact Nessa Prendergast, Director, Media Relations, at 514-954-2809.

Profile

Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and Mexico, and fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, the second-largest community newspaper publisher, and with its digital platforms that deliver unique content through more than 120 websites, it is also one of Canada's leading media groups. In addition, Transcontinental offers marketing products and services that use new communications platforms supported by database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (TSX: TCL.A, TCL.B, TCL.PR.D) has 11,000 employees in Canada, the United States and Mexico, and reported revenues of C$2.4 billion in 2009. For more information about the Corporation, please visit www.transcontinental.com.

Note: This press release contains certain forward-looking statements concerning the future performance of the Corporation. Such statements, based on the current expectations of management, inherently involve numerous risks and uncertainties, known and unknown. We caution that all forward-looking information is inherently uncertain and actual results may differ materially from the assumptions, estimates or expectations reflected or contained in the forward-looking information, and that actual future performance will be affected by a number of factors, many of which are beyond the Corporation's control, including, but not limited to, the economic situation, structural changes in its industries, exchange rate, availability of capital, energy costs, increased competition, as well as the Corporation's capacity to implement its strategic plan and rationalization plan, engage in strategic transactions and integrate acquisitions into its activities. The risks, uncertainties and other factors that could influence actual results are described in the *Management's Discussion and Analysis* and *Annual Information Form.*

The forward-looking information in this release is based on current expectations and information available as of June 8, 2010. The Corporation's management disclaims any intention or obligation to

update or revise any forward-looking statements unless otherwise required by the Securities Authorities.

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Management's Discussion and Analysis

For the second quarter ended April 30, 2010

The purpose of this Management's Discussion and Analysis is to explain management's point of view on Transcontinental's past performance and future outlook. More specifically, it outlines the development strategy, performance in relation to objectives, future expectations and how Management addresses risk and manages financial resources. This report also provides information to improve the reader's understanding of the consolidated financial statements and related notes. It should therefore be read in conjunction with those documents. This Management's Discussion and Analysis is dated June 8, 2010.

In this document, unless otherwise indicated, all financial data are prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP). All amounts are in Canadian dollars, and the term "dollar", as well as the symbols "$" and "C$", designate Canadian dollars unless otherwise indicated. This Management's Discussion and Analysis also uses non-GAAP financial measures. Please refer to the section of this report entitled "Reconciliation of Non-GAAP Financial Measures" for a complete description of these measures on page 17.

The consolidated financial statements include the accounts of the Corporation and those of its subsidiaries, joint ventures and variable interest entities for which the Corporation is the principal beneficiary. Business acquisitions are accounted for under the acquisition method and the results of operations of these businesses are included in the consolidated financial statements from the acquisition date. Investments in joint ventures are accounted for using the proportionate consolidation method and investments in companies subject to significant influence are accounted for using the equity method. Other investments are recorded at either amortized cost or marked-to-market through comprehensive income depending on their classification as either financial assets held to maturity or available-for-sale.

To facilitate the reading of this report, the terms "Transcontinental", "Corporation", "we", "our" and "us" all refer to Transcontinental Inc. together with its subsidiaries.

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DEFINITIONS OF TERMS USED IN THIS MD&A

To make it easier to read this report, some terms have been shortened. The following are the full definitions of the shortened terms used in this report:

Terms Used	Definitions
Adjusted operating income before amortization	Operating income from continuing operations before amortization, asset impairment and restructuring costs and impairment of goodwill and intangible assets
Adjusted operating income	Operating income from continuing operations before impairment of assets, restructuring costs and impairment of goodwill and intangible assets
Net income (loss) applicable to participating shares	Net income (loss) minus dividends on preferred shares
Adjusted net income applicable to participating shares	Net income from continuing operations applicable to participating shares before impairment of assets and restructuring costs, impairment of goodwill and intangible assets, less related income taxes and unusual adjustments to income taxes
Net indebtedness	Long-term debt plus current portion of long-term debt plus bank overdraft less cash and cash equivalents

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, we make written or oral forward-looking statements within the meaning of certain securities laws, including the "safe harbour" provisions of the *Securities Act* (Ontario). We may make such statements in this document, in other filings with Canadian regulators, in reports to shareholders or in other communications. These forward-looking statements include, among others, statements with respect to our medium-term goals, our outlook, objectives under our *Evolution 2010* business project and strategies to achieve those objectives and goals, as well as statements with respect to our beliefs, plans, objectives, expectations, anticipations, estimates and intentions. The words "may," "could," "should," "would," "outlook," "believe," "plan," "anticipate," "estimate," "expect," "intend," "objective," the use of the conditional tense, and words and expressions of similar nature are intended to identify forward-looking statements.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, which give rise to the possibility that predictions, forecasts, projections and other forward-looking statements will not be achieved. We caution readers not to place undue reliance on these statements, as a number of important factors could cause our actual results to differ materially from the beliefs, plans, objectives, expectations, anticipations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: credit risks, security of data, market dynamics, liquidity, financing and operational risks; the strength of the Canadian, Mexican and United States' economies in which we conduct business; the impact of the movement of the Canadian dollar relative to other currencies, more particularly the U.S. dollar, the euro and the Mexican peso; the impact from raw material and energy prices; the seasonal and cyclical nature of certain businesses, notably the book publishing activities, the effects of changes in interest rates; the effects of competition in the markets in which we operate; the effects of new media and the corresponding shift of advertising revenue to new platforms; judicial judgments and legal proceedings; our ability to develop new opportunities through our strategy; our ability to hire and retain qualified personnel and maintain a good reputation; our ability to complete strategic transactions; changes in accounting policies and methods we use to report our financial condition, including uncertainties associated with critical accounting assumptions and estimates; infrastructure risks; the possible impact on our businesses from public-health emergencies, international conflicts and other developments; and our success in anticipating and managing the foregoing risks; other factors may affect future results including, but not limited to, timely development and introduction of new products and services, changes in tax laws, changes in environmental regulations, changes in the U.S. and Canadian postal systems policies, technological changes and new regulations.

We caution that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to the Corporation, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Assumptions used to derive forward-looking information could vary materially one at a time or in conjunction. Variation in one assumption may also result in changes in another, which might magnify or counteract the effect on forward-looking information. Unless otherwise required by the securities authorities, we do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by us or on our behalf. See "Risks and Uncertainties" for a description of the most important risks identified by the Corporation. The forward-looking statements contained herein are based on current expectations and information available as June 8, 2010.

TRANSCONTINENTAL PROFILE

Transcontinental creates marketing products and services that allow businesses to attract, reach and retain their target customers. The Corporation is the largest printer in Canada and Mexico, and fourth-largest in North America. As the leading publisher of consumer magazines and French-language educational resources, the second-largest community newspaper publisher, and with its digital platforms that deliver unique content through more than 120 websites, it is also one of Canada's leading media groups. In addition, Transcontinental offers marketing products and services that use new communications platforms supported by database analytics, premedia, e-flyers, email marketing, custom communications and mobile solutions.

Transcontinental (TSX: TCL.A, TCL.B, TCL.PR.D) has about 11,000 employees in Canada, the United States and Mexico, and reported revenues of C$2.4 billion in 2009.

PREAMBLE

The consolidated financial statements and all financial data presented in this report have been restated to present our results from continuing operations. Accordingly, the financial information presented, except for net income available to participating shares, exclude the results from our direct mail activities in the United States.

SUMMARY OF ACTIVITIES IN SECOND QUARTER 2010

We generated positive organic growth in revenues and adjusted operating income despite the market conditions, which are stabilizing but still difficult. Our revenues increased $10.3 million, or 1.9%, excluding divestitures and closures, the paper effect and exchange rates, mainly due to our printing of the *San Francisco Chronicle* daily, our Marketing Communications Sector and stabilization in some of our more traditional segments. Adjusted operating income was up $8.5 million, or 17.9%, excluding divestitures and closures, the paper effect and exchange rates, primarily due to the full impact of the rationalization measures deployed in fiscal 2009, our printing of the *San Francisco Chronicle* and greater operational efficiency.

Net income applicable to participating shares increased $211.3 million, from a loss of $144.3 million in second quarter 2009 to earnings of $67.0 million in 2010. The increase stems mainly from the impairment of goodwill and intangible assets and the impairment of assets and restructuring costs recorded in the second quarter of 2009, combined with a gain related to the discontinuance of our direct mail activities in the United States on April 1st, 2010.

This considerably strengthened our financial position during the quarter. As at April 30, 2010, our ratio of net indebtedness (including use of the securitization program) to adjusted operating income before amortization was 2.08 compared to 2.40 as at January 31, 2010 and to 2.59 as at October 31, 2009.

Finally, to enhance our marketing communications offering and continue our strategy of growing through new media and digital platforms, late in the quarter we acquired LIPSO Systems, a Canadian leader in the delivery of mobile solutions.

HIGHLIGHTS OF SECOND QUARTER 2010

- Revenues for the second quarter 2010 were down 4.0% from the second quarter 2009, from $531.1 million to $510.0 million. Excluding the divestiture or closure of publications and plants, the paper effect and the exchange rate effect, revenues grew 1.9%.
- Adjusted operating income before amortization rose 18.2%, from $77.0 million in second quarter of fiscal 2009 to $91.0 million in 2010. The increase is mainly due to the full impact of the rationalization measures implemented in fiscal 2009, the improved operational efficiency of our production equipment and the contribution from printing the *San Francisco Chronicle* daily paper.
- Adjusted operating income margin before amortization increased from 14.5% in 2009 to 17.8% in 2010. This increase is mainly due to our rationalization measures and improved operational efficiency.
- Net income applicable to participating shares was up $211.3 million, from a loss of $144.3 million in 2009 to income of $67.0 million in 2010. The increase is mainly due to impairment of goodwill and intangible assets and asset impairment and restructuring costs in 2009 combined with a gain from the discontinuance of our direct mail operations in the United States, and higher operating income. These items are partially offset by an increase in income taxes and dividends on preferred shares. On a per-share basis, it increased from a loss of $1.79 to income of $0.83.
- Adjusted net income applicable to participating shares increased $4.3 million, or 14.3%, from $30.0 million in 2009 to $34.3 million in 2010. On a per-share basis, it rose from $0.37 to $0.42.
- We considerably improved our financial position. As at April 30, 2010, the ratio of net indebtedness (including use of the securitization program) to adjusted operating income before amortization was 2.08, compared to 2.59 as at October 31, 2009.
- We sold almost all of the assets of the Direct Mail Group in the United States for net proceeds of $105.7 million. Consequently, a gain of $38.3 million related to the discontinuance of operations was recorded, net of related income taxes.
- We acquired LIPSO Systems, a Canadian leader in aggregated mobile solutions, integrating connectivity, transactional services and applications development.

STRATEGY

No major change in the second quarter 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

ENVIRONMENT AND SUSTAINABLE DEVELOPMENT

We recognize the critical nature of environmental issues, and take extensive precautions to protect our natural world. Transcontinental is not a major contributor to Greenhouse Gases (GHG). But that does not mean that we are not concerned about the impact of our activities on air quality. Striving everyday to improve our environmental performance, our company-wide environmental policies and procedures are founded on three main guiding principles: (1) protect the environment for present and future generations, (2) reduce risks and improve efficiencies, and (3) introduce advanced technology and processes. The following describes our environmental policies and provides examples of how we are implementing them. For more information, please see the Environment section of *Management's Discussion and Analysis for the fiscal year ended October 31, 2009.*

Furthermore, in second quarter 2010, the Corporation was honoured for its commitment to sustainable development at the Environmental Printing Awards, winning Best of Show, which recognizes the most progressive company of the year overall. The Corporation also won a Gold for the Most Environmentally Progressive Printing Company in Canada, 500+ employees.

Also, in February 2010, the Corporation tabled its *Sustainability Report 2009 – Committing ourselves to performance*, based on the *Global Reporting Initiative* (GRI) standard. This report articulates Transcontinental's commitment to the path of sustainable development around four themes:

- ***Engagement and ownership***: Mobilize employees at all levels of the organization, and our suppliers, customers and partners.
- ***Innovation is the key driver, internally and externally***: Supporting and rewarding initiative as a key component of the strategy.
- ***Connecting words to actions***: Setting targets and key performance indicators to measure progress.
- ***Shared journey***: Communicating challenges and progress at each step of the way.

The following are some of Transcontinental's achievements mentioned in the report:

- ***Greenhouse gas emissions***: reduction of 11% in 2009 and implementation of a global energy management program to reduce emissions by 15% by 2012 compared to the level in 2008.
- ***Paper Purchasing Policy***: increase in the use of Gold and Gold Plus papers, the highest ranked papers in the environmental classification developed by Transcontinental, which represent 48% of the paper purchased in 2009, compared to 22% in 2008.
- ***Chain-of-Custody***: triple forest product chain-of-custody certification (FSC/SFI/PEFC) in 42 Transcontinental printing plants.
- ***Recycling programs***: recovery of 700 tonnes of paper in the Montreal subway system and contribution of $480,000 to provincial and municipal recycling programs.
- ***Health, Safety and Wellness***: decrease in the accident frequency rate, from 1.30 in 2008 to 1.08 in 2009.
- ***Corporate philanthropy***: investment of about $5.7 million in social and humanitarian causes in 2009, in the form of donations and sponsorships.
- ***LEED certification***: LEED Silver certification for Transcontinental Northern California, the plan built in Fremont, California to print the *San Francisco Chronicle*.

For details, see the *Sustainability Report 2009 – Committing ourselves to performance* posted on our website at www.transcontinental.com.

SELECTED FINANCIAL DATA

For second quarters and six-month periods ended April 30
(unaudited)

(in millions of dollars, except per share data)	Three months ended April 30 2010	Three months ended April 30 2009	Variation in %	Six months ended April 30 2010	Six months ended April 30 2009	Variation in %
Operations						
Revenues	**$ 510.0**	$ 531.1	-4%	**$ 1,021.6**	$ 1,095.9	-7%
Adjusted operating income before amortization [1]	**91.0**	77.0	18%	**172.1**	136.2	26%
Operating income (loss)	**55.5**	(145.6)	n/a	**100.9**	(131.2)	n/a
Adjusted operating income [1]	**58.3**	47.6	22%	**105.6**	78.5	35%
Net income (loss) applicable to participating shares	**67.0**	(144.3)	n/a	**93.2**	(150.7)	n/a
Adjusted net income applicable to participating shares [1]	**34.3**	30.0	14%	**61.2**	49.3	24%
Cash flow from operating activities before changes in non-cash operating items [1]	**70.7**	50.6	40%	**133.2**	100.2	33%
Cash flow related to operating activities of continuing operations	**(57.4)**	(23.6)	n/a	**(0.8)**	9.2	n/a
Investments						
Acquisitions of property, plant and equipment	**26.3**	62.6	-58%	**89.0**	159.8	-44%
Business acquisitions [2]	**2.2**	1.3	69%	**2.8**	13.0	-78%
Per share data (basic)						
Net income (loss) applicable to participating shares	**0.83**	(1.79)	n/a	**1.16**	(1.87)	n/a
Adjusted net income applicable to participating shares [1]	**0.42**	0.37	14%	**0.76**	0.61	25%
Cash flow from operating activities before changes in non-cash operating items [1]	**0.88**	0.63	40%	**1.65**	1.24	33%
Cash flow related to operating activities of continuing operations	**(0.71)**	(0.29)	n/a	**(0.01)**	0.11	n/a
Dividends on participating shares	**0.09**	0.08	13%	**0.17**	0.16	6%
Average number of participating shares outstanding (in millions)	**80.8**	80.8		**80.8**	80.8	

	As at April 30 2010	As at October 31 2009	As at April 30 2009
Financial condition			
Total assets	**$ 2,488.2**	$ 2,549.7	$ 2,479.2
Net indebtedness [1]	**778.0**	791.1	915.3
Shareholders' equity	**1,193.5**	1,115.2	942.0
Net indebtedness (including utilization of securitization program) / adjusted operating income before amortization (Last 12 months)	**2.08**	2.59 [3]	3.38 [3]
Shareholders' equity per share	**$ 14.77**	$ 13.80	$ 11.66
Number of participating shares at end of period (in millions)	**80.8**	80.8	80.8

[1] Please refer to the section "Reconciliation of non-GAAP Financial Measures" on page 17 of this Management's Discussion and Analysis.

[2] Total consideration in cash or otherwise for businesses acquired through the purchase of shares or assets.

[3] As originally reported.

DETAILED ANALYSIS OF SECOND QUARTER 2010 OPERATING RESULTS

Analysis of Main Variances – Consolidated Results
For the second quarter ended April 30, 2010
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
Results - Second Quarter 2009	**$ 531.1**		**$ 47.6**		**$ (144.3)**	
Acquisitions/Divestitures/Closures	(21.2)	(4.0) %	(0.6)	(1.3) %	(0.6)	n/a
Discontinued operations	-	- %	-	- %	37.0	n/a
Existing operations						
Paper effect	(6.8)	(1.3) %	2.1	4.4 %	1.7	n/a
Exchange rate effect	(3.4)	(0.6) %	0.7	1.5 %	0.6	n/a
Organic growth	10.3	1.9 %	8.5	17.9 %	4.3	n/a
Impairment of assets and restructuring costs, impairment of goodwill and intangible assets and unusual adjustments to income taxes	-	- %	-	- %	170.0	n/a
Dividends on preferred shares	-	- %	-	- %	(1.7)	n/a
Results - Second Quarter 2010	**$ 510.0**	**(4.0) %**	**$ 58.3**	**22.5 %**	**$ 67.0**	**n/a**

As shown in the above table, a number of factors contributed to the variation between results in second quarter 2010 and second quarter 2009

- The net effect of acquisitions, divestitures and closures decreased revenues by $21.2 million and decreased adjusted operating income by $0.6 million. The decrease in revenues comes mainly from divestitures and closures in the Printing Sector, including the sale of our Retail Group plant in Ohio and, to a lesser extent, from the Media Sector, with the closure of several publications and newspapers. The negative impact on net income, after deduction of financing expenses and income taxes, was $0.6 million.

- The paper effect had a $6.8 million negative impact on revenues. The paper effect includes the variation in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for printing operations, these elements affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had positive impacts of $2.1 million on adjusted operating income and $1.7 million on net income.

- The rise in the Canadian dollar against its U.S. and Mexican counterparts reduced revenues by $3.4 million and increased adjusted operating income by $0.7 million. In second quarter 2010, the impact of the exchange rate was mainly due to variation in the Canadian and U.S. dollar exchange rates. The variation in average spot exchange rates in second quarter 2010 versus second quarter 2009 was 15.4% for the CAD/USD and 5.5% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of about $2.1 million on revenues. For export sales by plants in Canada, the negative impact, net of the currency hedging program, was $1.3 million. The conversion of results for U.S. and Mexican units had a positive impact of $0.3 million on adjusted operating income. Export sales, net of the currency hedging program and purchases in U.S. dollars, had a negative impact of $1.2 million on adjusted operating income. Finally, the positive impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was $1.6 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net positive effect was $0.6 million.

- Revenues in our base business grew $10.3 million, or 1.9%, in second quarter 2010. The increase stems mainly from the contribution from printing the *San Francisco Chronicle* daily paper, the Marketing Communications Sector, and stabilization in some of our more traditional segments.

- The positive organic growth in adjusted operating income of $8.5 million in second quarter 2010, a 17.9% improvement, stems mainly from the full impact of the rationalization plan implemented in fiscal 2009 and to the sustained improvement in our operational efficiency, which largely offset the decrease in adjusted operating income in the Marketing Communications Sector, which is pursuing strategic investments to develop its offering of digital products and marketing services.

Amortization

Amortization expense increased by $3.3 million, or 11.2%, to $32.7 million in second quarter 2010, compared to $29.4 million in second quarter 2009. This increase results mostly from the start-up of our plant in Fremont, California, where we primarily print the *San Francisco Chronicle,* and investments completed at the Transcontinental Transmag plant in Montreal, partially offset by the exchange rate effect and the divestitures or closures of publications and plants.

Impairment of Assets and Restructuring Costs

In second quarter 2010, an amount of $2.8 million before tax ($2.0 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Of that amount, $2.4 million is due to job cuts and $0.4 million to asset impairment and printing equipment transfers.

In second quarter 2009, an amount of $23.9 million before tax ($17.3 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs. Details are as follows:

- Asset impairment and equipment transfer of $10.8 million before tax ($8.2 million after tax) related to machinery and equipment that was no longer necessary considering the lower level of activity of certain businesses.

- Labour force reductions of $13.1 million before tax ($9.1 million after tax) related to the rationalization plan announced in the second quarter of fiscal 2009.

Impairment of Goodwill and Intangible Assets

In second quarter 2009, a pre-tax amount of $169.3 million ($154.7 million after tax) was recorded separately on the consolidated statement of income as impairment of goodwill and intangible assets. Of that amount, $166.5 million was for a goodwill write-down in the Printing and Marketing Communications sectors basically related to our commercial printing operations. The remaining $2.8 million was for the write-off of trade names in the Consumer Solutions Group in our Media Sector.

Financial Expenses and Discount on Sale of Accounts Receivable

When combined, financial expenses and discount on sale of accounts receivable increased by $0.7 million, or 6.9%, from $10.1 million in second quarter 2009 to $10.8 million in second quarter 2010. This increase is mainly due to higher interest rates related to new financing agreements concluded during fiscal 2009. It is offset, however, by a lower level of net debt than in 2009, due to the sale of almost all of our direct mail operations in the United States, the issuing of preferred shares and the effect related to the rise in the Canadian dollar against its U.S. and European counterparts.

Income Taxes

Income taxes increased by $24.3 million, from a recovery of $13.6 million in second quarter 2009 to an expense of $10.7 million for the second quarter 2010. Excluding income taxes on impairment of goodwill and intangible assets, and on impairment of assets and restructuring costs, income taxes would have been $11.5 million, with an income tax rate of 24.2%, compared to $7.6 million, or 20.3%, in second quarter 2009. This increase in the tax rate is mainly due to the change in the geographic distribution of pre-tax earnings.

Discontinued Operations

In the second quarter 2010, the Corporation announced that it had sold almost all of its direct mail operations in the United States for net proceeds of $105.7 million. In the same period, the Corporation recorded net income from discontinued operations of $34.7 million, net of related income taxes, including a gain related to the discontinuance of operations of $38.3 million, net of related income taxes, as well as a loss related to the operation of discontinued operations of $3.6 million ($2.3 million in 2009), net of related income taxes.

Dividends on Preferred Shares

During the second quarter 2010, dividends of $1.7 million on preferred shares were considered with respect to the preferred shares, series D.

Net Income Applicable to Participating Shares

Net income applicable to participating shares increased by $211.3 million, from a net loss of $144.3 million in second quarter 2009 to a net income of $67.0 million in second quarter 2010. This increase is primarily due to impairment of goodwill and intangible assets and impairment of assets and restructuring costs in 2009, combined with a gain related to the discontinuance of our direct mail operations in the United States and an increase in operating income. These items were partially offset by an increase in income taxes and dividends on preferred shares. On a per-share basis, net income applicable to participating shares increased, from a net loss of $1.79 to a net income of $0.83.

Adjusted net income applicable to participating shares increased $4.3 million, or 14.3%, from $30.0 million in second quarter 2009 to $34.3 million in second quarter 2010. On a per-share basis, it increased $0.05, from $0.37 to $0.42.

REVIEW OF OPERATING SECTORS FOR SECOND QUARTER 2010

Analysis of Main Variances – Sector Results
For the second quarter ended April 30, 2010
(unaudited)

(in millions of dollars)	Printing Sector	Marketing Communications Sector	Media Sector	Inter-segment and Other Results	Consolidated Results
Revenues - Second Quarter 2009	**$ 379.0**	**$ 25.6**	**$ 151.2**	**$ (24.7)**	**$ 531.1**
Acquisitions/Divestitures/Closures	(16.1)	-	(5.1)	-	(21.2)
Existing operations					
Paper effect	(6.8)	-	-	-	(6.8)
Exchange rate effect	(2.1)	(1.3)	-	-	(3.4)
Organic growth	0.3	4.0	2.2	3.8	10.3
Revenues - Second Quarter 2010	**$ 354.3**	**$ 28.3**	**$ 148.3**	**$ (20.9)**	**$ 510.0**
Adjusted operating income - Second Quarter 2009	**$ 32.6**	**$ (0.5)**	**$ 21.3**	**$ (5.8)**	**$ 47.6**
Acquisitions/Divestitures/Closures	(0.5)	-	(0.1)	-	(0.6)
Existing operations					
Paper effect	-	-	2.1	-	2.1
Exchange rate effect	1.0	(0.3)	-	-	0.7
Organic growth (negative)	13.8	(2.2)	(1.6)	(1.5)	8.5
Adjusted operating income - Second Quarter 2010	**$ 46.9**	**$ (3.0)**	**$ 21.7**	**$ (7.3)**	**$ 58.3**

This review of operating sectors should be read in conjunction with the information presented in the above table and the information disclosed in the Segmented Information note (note 18) to the Consolidated Financial Statements for the quarter ended April 30, 2010.

Management believes that adjusted operating income by business segment used in this section is a meaningful measure of its financial performance.

Printing Sector

Printing Sector revenues were down $24.7 million, or 6.5%, from $379.0 million in second quarter 2009 to $354.3 million in second quarter 2010. Excluding divestitures, closures and the negative impact of fluctuations in the exchange rate and paper, revenues were up 0.3 million, or 0.1%.

Our diversified clientele, our leading position in most of our segments and the contribution from the contract to print the *San Francisco Chronicle* more than offset the market conditions which are currently affecting our magazine, book and catalogue printing; and marketing product printing. The lower revenues in this sector are largely due to the sale, in May 2009, of the Retail Group plant in Ohio. Also, because their sales are close to half in U.S. dollars, our magazine, book and catalogue printing operations were again affected by exchange rate fluctuations.

Adjusted operating income increased from 32.6 million in second quarter 2009 to $46.9 million in second quarter 2010, up 43.9%. The increase of $14.3 million raised the adjusted operating income margin, which went from 8.6% in second quarter 2009 to 13.2% in second quarter 2010. Excluding divestitures, closures and the positive exchange rate effect, adjusted operating income rose $13.8 million, or 42.3%. The effectiveness of our rationalization plan implemented in 2009 and enhanced operational efficiency added to organic growth in adjusted operating income for the Retail Group, the Marketing Products Group and the Newspaper Group; the latter Group also benefited from the contribution from the contract to print the *San Francisco Chronicle*.

In addition, significant effort will go into the investment project to print *The Globe & Mail* until 2028. Note that this project, which started in 2009, aims to set up a new and innovative Canada-wide platform to print newspapers and flyers. It will be the first network to integrate the printing of these two products across Canada. This will make it possible to generate new sales of close to $25 million and will result in certain synergies. Furthermore, overall efficiency will improve because equipment will be more productive and production capacity better utilized. This investment will also help reduce capital expenditures in the Retail Group going forward. The network will make it possible to add colour to each page of *The Globe and Mail,* and will also enable us to meet the needs of our retailers. The project is advancing on schedule and production should start early in fiscal 2011.

In the second half of fiscal 2010, the Printing Sector will continue to improve operational efficiency to ensure that its cost structure is adjusted to the market in our various printing segments, while further consolidating its leading position in Canada. Also, our plant in Fremont, California has acquired a new customer, and we will be continuing our efforts to bring in new revenues.

Marketing Communications Sector

Revenues in the Marketing Communications Sector grew by $2.7 million, from $25.6 million in the second quarter 2009 to $28.3 million in 2010. Excluding the exchange rate effect, revenues grew by $4.0 million, or 15.6%. This positive organic growth is due to our Digital Solutions and Premedia divisions, which won new contracts.

The adjusted operating loss increased from $0.5 million in second quarter 2009 to $3.0 million in 2010, up $2.5 million. As a result, the adjusted operating income margin decreased, from -2.0% in second quarter 2009 to -10.6% in 2010. Excluding the exchange rate effect, the adjusted operating loss increased by $2.2 million due to an increase in amortization and an increase in costs related to strategic investments to develop our digital products and marketing services.

In the last two quarters of fiscal 2010, the Marketing Communications Sector will intensify the development and optimization of its digital marketing solutions. The acquisition of LIPSO Systems is part of our growth strategy for digital and marketing communications; it also meets growing demand from our customers for mobile solutions that mesh with marketing and transactional needs. LIPSO's unique technologies will enhance our increasingly integrated offering to advertisers.

Media Sector

Media Sector revenues were down $2.9 million, or 1.9%, from $151.2 million in second quarter 2009 to $148.3 million in second quarter 2010. Excluding publications that were closed or sold, revenues increased $2.2 million, or 1.5%.

The growth in base business in second quarter 2010 stems from higher revenues across all groups, except for the Business and Consumers Solutions Group and the Educational Book Publishing Group. The higher revenues in the New Media and Digital Solutions Group derived from the development of our digital platforms, as well as from higher revenues from distribution operations which benefited our Local Solutions Group, were partially offset by lower revenues from our Educational Book Publishing Group.

Adjusted operating income rose by $0.4 million, or 1.9%, from $21.3 million in second quarter 2009 to $21.7 million in second quarter 2010. Excluding divestitures, closures and the paper effect, adjusted operating income declined $1.6 million, or 7.5%. The decrease is primarily due to our Educational Book Publishing Group and, to a lesser extent, our New Media and Digital Solutions Group, which are continuing their strategic investments in various digital platforms. The decrease was contained mainly by the positive effects of the rationalization measures implemented in fiscal 2009 across all groups.

Adjusted operating income margin was 14.6% in second quarter 2010, up from 14.1% in second quarter 2009. The increase stems mainly from the full impact of the rationalization measures implemented in fiscal 2009.

In the second quarter of 2010, the Media Sector launched new products to improve its digital offering and its offering in publications of a more traditional nature, in order to adapt them to the current needs of consumers. Thus the Local Solutions Group launched the website dealstreet.ca and a new weekly, the *Rive-Sud Express*, which has its own diversified and interactive website. The Business and Consumer Solutions Group launched the magazine *PREMIUM*, an innovative and high-end publication that is Quebec's first publication in bookzine format.

In the second half of 2010, the Media Sector will focus its efforts on expanding and enhancing its offering on its numerous digital platforms through recent websites such as our pre-shopping site dealstreet.ca, and our online reputation management tool for businesses offered by weblocal.ca. We will continue to seek ways to monetize our digital products by expanding our sales network. Lastly, there are hints of a recovery in our traditional magazine publishing operations, which will amplify the impact of efforts to continuously improve efficiency.

Inter-Segment and Other Activities

Revenues of inter-segment and other activities went from a negative total of $24.7 million in second quarter of 2009 to a negative total of $20.9 million in 2010. The variation is mainly due to the decrease in inter-segment transactions. Adjusted operating income went from a negative total of $5.8 million in second quarter 2009 to a negative total of $7.3 million in 2010, mainly due to a non-recurring curtailment charge related to replacing the hybrid or defined benefit pension plans with defined contribution pension plans.

DETAILED ANALYSIS OF OPERATING RESULTS FOR THE SIX-MONTH PERIOD ENDED APRIL 30, 2010

Analysis of Main Variances – Consolidated Results
For the six-month period ended April 30, 2010
(unaudited)

(in millions of dollars)	Revenues	%	Adjusted operating income	%	Net income (loss) applicable to participating shares	%
For the Six-month Period Ended April 30, 2009	**$ 1,095.9**		**$ 78.5**		**$ (150.7)**	
Acquisitions/Divestitures/Closures	(40.6)	(3.7) %	2.0	2.5 %	1.7	n/a
Discontinued operations	-	- %	-	- %	49.1	n/a
Existing operations						
Paper effect	(21.1)	(1.9) %	3.7	4.7 %	3.1	n/a
Exchange rate	(14.8)	(1.4) %	(1.6)	(2.0) %	0.3	n/a
Organic growth	2.2	0.2 %	23.0	29.3 %	10.2	n/a
Impairment of assets and restructuring costs, impairment of goodwill and intangible assets and unusual adjustments to income taxes	-	- %	-	- %	182.9	n/a
Dividends on preferred shares	-	- %	-	- %	(3.4)	n/a
For the Six-month Period Ended April 30, 2010	**$ 1,021.6**	**(6.8) %**	**$ 105.6**	**34.5 %**	**$ 93.2**	**n/a**

As shown in the above table, a number of factors contributed to the variation in results for the first six months of fiscal 2010 and the first six months of fiscal 2009.

- The net impact of acquisitions, divestitures and closures reduced revenues by $40.6 million and increased adjusted operating income by $2.0 million. The revenue reduction comes from the sale of our Retail Group plant in Ohio and the closure of certain publications and newspapers in the Media Sector, partially offset by the contribution from the acquisitions of Totem (formerly Redwood Custom Communications) and Conversys. Net of financing and income taxes, their positive impact on net income was $1.7 million.

- The paper effect had a $21.1 million negative impact on revenues. This effect includes the variation in the price of paper, paper supplied and changes in the type of paper used by customers of our printing operations. Note that for printing operations, these items affect revenues without impacting adjusted operating income. For the Media Sector, the variation in the price of paper had a positive impact of $3.7 million on adjusted operating income and $3.1 million on net income.

- The rise in the Canadian dollar versus its U.S. and Mexican counterparts had an impact on results for the first six months of 2010, leading to a $14.8 million decrease in revenues and $1.6 million decrease in adjusted operating income. In the first half of 2010, the exchange rate effect was largely due to the variation in the exchange rate between the Canadian and U.S. dollars. The variation in the average spot exchange rates for the first six months of 2010 versus the first six months of 2009 was 15.4% for the CAD/USD and 9.2% for the CAD/MXP. With respect to revenues, conversion of sales by U.S. and Mexican units had a negative impact of $8.3 million. For export sales from Canadian plants, net of the currency hedging program, the negative impact was $6.5 million. The positive impact of the conversion of results for the U.S. and Mexican units was $0.1 million on adjusted operating income. The negative impact of export sales, net of the currency hedging program and purchases in U.S. dollars, was $4.0 million on adjusted operating income. Finally, the positive impact of the conversion of balance sheet items related to the operation of Canadian units denominated in foreign currency was $2.3 million on adjusted operating income. Taking into consideration financial expenses and income taxes denominated in foreign currencies, the net positive effect was $0.3 million.

- Revenues from base business grew $2.2 million, or 0.2%, in the first six months of fiscal 2010. The increase is largely due to the new *San Francisco Chronicle* and Rogers printing contracts, partially offset by our magazine, book and catalogue printing, and our marketing products printing, which are still experiencing, though on a smaller scale, the impact of current market conditions.

- The growth in adjusted operating income of $23.0 million, or 29.3% in the first six months of fiscal 2010 stems mainly from the full impact of the rationalization plan implemented in fiscal 2009. The steady improvement in operational efficiency and new printing contracts largely offset the decline in adjusted operating income in the Marketing Communications Sector, which is still developing its digital products and marketing services through strategic investments.

Amortization

Amortization expense increased by $8.8 million, or 15.3 %, in the first six months of fiscal 2010, to $66.5 million, compared to $57.7 million in the first six months of fiscal 2009. This increase stems mainly from the start-up of our plant in Fremont, California, where we print the *San Francisco Chronicle* daily, and investments completed at the Transcontinental Transmag plant, partially offset by the exchange rate effect and divestitures or closures of publications and plants.

Impairment of Assets and Restructuring costs

An amount of $4.7 million before tax ($3.3 million after tax) was accounted for separately in the consolidated statement of income for the first six months of 2010 as impairment of assets and restructuring costs. Details are as follows:

- Impairment of assets and equipment transfers of $0.8 million before tax ($0.6 million after tax) related to machinery and equipment that was no longer required considering the lower level of activity of certain businesses.

- Restructuring costs of $3.9 million before tax ($2.7 million after tax) related to labour force reductions.

An amount of $40.4 million before tax ($29.1 million after tax) was accounted for separately in the consolidated statement of income as impairment of assets and restructuring costs for the first six months of fiscal 2009. Of this amount, $27.3 million relates to asset impairment and equipment transfers and $13.1 million to labour force reductions related to the rationalization announced in early fiscal 2009.

Impairment of Goodwill and Intangible Assets

For the first six months of fiscal 2009, a pre-tax amount of $169.3 million ($154.7 million after tax) was recorded separately on the consolidated statement of income as impairment of goodwill and intangible assets. Of that amount, $166.5 million was for a goodwill write-down in the Printing and Marketing Communications sectors, mainly in our commercial products printing operations. The remaining $2.8 million was for the write-off of trade names in the Consumer Solutions Group in our Media Sector.

Financial Expenses and Discount on Sale of Accounts Receivable

When combined, financial expenses and discount on sale of accounts receivable increased by $2.2 million, or 11.5%, from $19.2 million for the first six months of fiscal 2009 to $21.4 million for the first six months of fiscal 2010. This increase is mainly due to higher interest rates related to financing agreements concluded in fiscal 2009. This increase is, however, offset by a lower level of debt than in 2009, due to the sale of almost all of our direct mail

operations in the United States, the issue of preferred shares and the effect related to the rise in the Canadian dollar against its U.S. and European counterparts.

Income Taxes

Income taxes increased by $31.6 million, from a recovery of $16.1 million in the first six months of fiscal 2009 to an expense of $15.5 million in the first six months of fiscal 2010. Excluding income taxes on impairment of goodwill and intangible assets, impairment of assets and restructuring costs, and unusual adjustments to income taxes, income taxes would have amounted to $19.3 million, with an income tax rate of 22.9%, versus $9.8 million, or 16.5%, in the first six months of fiscal 2009. The increase in the tax rate is mainly due to the geographic distribution of pre-tax earnings and to higher operating income.

Discontinued Operations

In the second quarter 2010, the Corporation announced that it had closed the sale of almost all of its direct mail operations in the United States for net proceeds of $105.7 million. As a result, for the first six months of fiscal 2010, the Corporation recorded net income in discontinued operations of $32.9 million, net of related income taxes, including a gain of $38.3 million related to the discontinuance of operations, net of related income taxes, as well as a net loss of $5.4 million ($16.2 million in 2009) related to the operation of discontinued operations, net of related income taxes.

Net Income Applicable to Participating Shares

Net income applicable to participating shares increased from a net loss of $150.7 million in the first six months of fiscal 2009 to net income of $93.2 million in the first six months of fiscal 2010. This increase is primarily due to impairment of goodwill and intangible assets, and impairment of assets and restructuring costs in 2009, combined with a gain related to the discontinuance of our direct mail operations in the United States, an increase in operating income and unusual adjustments to income taxes. However, these items were partially offset by an increase in income taxes and by dividends on preferred shares. On a per-share basis, net income applicable to participating shares increased from a loss of $1.87 to a gain of $1.16.

Adjusted net income applicable to participating shares increased $11.9 million, or 24.1%, from $49.3 million in first half of 2009 to $61.2 million in first half of 2010. On a per-share basis, it increased $0.15, from $0.61 to $0.76.

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

Financial data have been prepared in conformity with Canadian Generally Accepted Accounting Principles (GAAP). However, certain measures used in this discussion and analysis do not have any standardized meaning under GAAP and could be calculated differently by other companies. The Corporation believes that certain non-GAAP financial measures, when presented in conjunction with comparable GAAP financial measures, are useful to investors and other readers because that information is an appropriate measure for evaluating the Corporation's operating performance. Internally, the Corporation uses this non-GAAP financial information as an indicator of business performance, and evaluates management's effectiveness with specific reference to these indicators. These measures should be considered in addition to, not as a substitute for or superior to, measures of financial performance prepared in accordance with GAAP. Below is a table reconciling GAAP financial measures to non-GAAP financial measures.

(unaudited)

	Three months ended April 30		Six months ended April 30	
(in millions of dollars, except per share amounts)	**2010**	2009	**2010**	2009
Net income (loss) applicable to participating shares	**$ 67.0**	$ (144.3)	**$ 93.2**	$ (150.7)
Dividends on preferred shares	**1.7**	-	**3.4**	-
Net loss (income) related to discontinued operations (after tax)	**(34.7)**	2.3	**(32.9)**	16.2
Non-controlling interest	**-**	(0.1)	**0.3**	0.2
Income taxes	**10.7**	(13.6)	**15.5**	(16.1)
Discount on sale of accounts receivable	**0.3**	1.4	**0.9**	3.1
Financial expenses	**10.5**	8.7	**20.5**	16.1
Impairment of goodwill and intangible assets	**-**	169.3	**-**	169.3
Impairment of assets and restructuring costs	**2.8**	23.9	**4.7**	40.4
Adjusted operating income	**58.3**	47.6	**105.6**	78.5
Amortization	**32.7**	29.4	**66.5**	57.7
Adjusted operating income before amortization	**$ 91.0**	$ 77.0	**$ 172.1**	$ 136.2
Net income (loss) applicable to participating shares	**$ 67.0**	$ (144.3)	**$ 93.2**	$ (150.7)
Net loss (income) related to discontinued operations (after tax)	**(34.7)**	2.3	**(32.9)**	16.2
Impairment of assets and restructuring costs (after tax)	**2.0**	17.3	**3.3**	29.1
Impairment of goodwill and intangible assets (after tax)	**-**	154.7	**-**	154.7
Unusual adjustments to income taxes	**-**	-	**(2.4)**	-
Adjusted net income applicable to participating shares	**34.3**	30.0	**61.2**	49.3
Average number of participating shares outstanding	**80.8**	80.8	**80.8**	80.8
Adjusted net income applicable to participating shares per share	**$ 0.42**	$ 0.37	**$ 0.76**	$ 0.61
Cash flow related to continuing operations	**$ (57.4)**	$ (23.6)	**$ (0.8)**	$ 9.2
Changes in non-cash operating items	**(128.1)**	(74.2)	**(134.0)**	(91.0)
Cash flow from continuing opereations before changes in non-cash operating items	**$ 70.7**	$ 50.6	**$ 133.2**	$ 100.2
Long-term debt			**$ 786.7**	$ 746.8
Current portion of long-term debt			**5.9**	175.3
Cash and cash equivalents			**(14.6)**	(6.8)
Net indebtedness			**$ 778.0**	$ 915.3

Summary of Quarterly Results

(unaudited)

(in millions of dollars, except per share amounts)	2010		2009				2008		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	**$ 510**	$ 512	$ 570	$ 504	$ 531	$ 565	$ 615	$ 536	$ 544
Adjusted operating income before amortization	**91**	81	120	83	77	59	108	75	83
Adjusted operating income margin before amortization	**17.8 %**	15.8 %	21.1 %	16.5 %	14.5 %	10.4 %	17.6 %	14.0 %	15.3 %
Operating income (loss)	**$ 56**	$ 45	$ 72	$ 47	$ (146)	$ 14	$ 80	$ 48	$ 54
Adjusted operating income	**58**	47	85	53	48	31	81	48	56
Adjusted operating income margin	**11.4 %**	9.2 %	14.9 %	10.5 %	9.0 %	5.5 %	13.2 %	9.0 %	10.3 %
Net income (loss) applicable to participating shares	**$ 67**	$ 26	$ 43	$ 25	$ (144)	$ (6)	$ (94)	$ 30	$ 37
Per share	**0.83**	0.32	0.54	0.31	(1.79)	(0.08)	(1.16)	0.37	0.45
Adjusted net income applicable to participating shares	**34**	27	53	31	30	19	51	30	33
Per share	**0.42**	0.34	0.65	0.39	0.37	0.24	0.63	0.37	0.40
% of fiscal year	**- %**	- %	39 %	24 %	22 %	15 %	37 %	21 %	23 %

The table above shows the evolution of the Corporation's quarterly results. Note the impact on revenues of the North American recession in 2009, and of the rise in the Canadian dollar versus its U.S. counterpart during the same period. However, note also the rationalization measures effectively limited the impact of the slowdown on earnings starting in the third quarter of fiscal 2009. The fourth quarter is higher than the others since advertising spending is generally higher in the fall; also, it is the peak period for book printing and for our educational book segment.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Principal Cash Flows and Financial Position
For quarters ended April 30
(unaudited)

(in millions of dollars)	2010	2009
Operating activities		
Cash flow from continuing operations before changes in non-cash operating items	$ 70.7	$ 50.6
Changes in non-cash operating items	(128.1)	(74.2)
Cash flow related to operating activities of continuing operations	(57.4)	(23.6)
Investing activities		
Business acquisitions, net of disposals	(2.2)	(1.3)
Acquisitions of property, plant and equipment, net of disposals	(25.5)	(59.6)
Other	(7.4)	(9.3)
Cash flow related to investing activities of continuing operations	(35.1)	(70.2)
Financing activities		
Increase in long-term debt	4.8	100.2
Reimbursement of long-term debt	(2.7)	(1.6)
Decrease in revolving term credit facility	(16.9)	(18.7)
Dividends on participating shares	(7.3)	(6.4)
Dividends on preferred shares	(1.7)	-
Other	2.0	(0.8)
Cash flow related to financing activities of continuing operations	(21.8)	72.7
Other relevant information		
Net indebtedness	778.0	915.3
Shareholders' equity	1,193.5	942.0
Net indebtedness (including usage of the securitization program) / adjusted operating income before amortization (last 12 months)	2.08	3.38 [1]
Credit rating		
DBRS	BBB high Stable	BBB high Stable
Standard and Poor's	BBB- Stable	BBB- Stable

Operating Activities

Cash flow from operating activities before changes in non-cash operating items rose to $70.7 million in 2010, compared to $50.6 million in 2009. The change is primarily due to the increase in adjusted operating income before amortization, partially offset by higher financial expenses. Changes in non-cash operating items resulted in an outflow of $128.1 million in 2010, compared to an outflow of $74.2 million in 2009. This difference is mainly due to lower utilization of our securitization program, partially offset by the timing of payments of certain accounts payable. Consequently, cash flow related to operating activities of continuing operations decreased, resulting in an outflow of $57.4 million in 2010, compared to an outflow of $23.6 million in 2009.

Investing Activities

In second quarter of 2010, $25.5 million was invested in property, plant and equipment, net of disposals, mainly for *The Globe and Mail* project. Fixed asset investments were down $34.1 million compared to $59.6 million invested in 2009, mainly because the *San Francisco Chronicle* project has now been completed.

Financing Activities

The Corporation paid $7.3 million in dividends on common shares, or 9 cents per share, in the second quarter of 2010, compared to $6.4 million or 8 cents per share, in the same quarter in 2009. Also in second quarter 2010, the Corporation paid $1.7 million in dividends on Series D preferred shares. Dividends paid by Transcontinental to Canadian residents are deemed eligible dividends under provincial and federal income tax laws.

Shares Issued and Outstanding	At April 30, 2010	At May 31, 2010
Class A (Subordinate Voting Shares)	65,106,172	65,106,267
Class B (Multiple Voting Shares)	15,708,885	15,708,790
Series D Preferred (with rate reset)	4,000,000	4,000,000

Debt Instruments

As at April 30, 2010, net indebtedness (including usage of the securitization program) to adjusted operating income before amortization stood at 2.08 (2.59 as at October 31, 2009) mainly due to the proceeds from the sale of almost all the assets of the Direct Mail Group in the United States, an increase in adjusted operating income before amortization, and the rise in the Canadian dollar versus the U.S. dollar. Furthermore, the Corporation has now achieved its objective, set in fiscal 2009, of keeping this ratio within a target range of 2.00 to 2.50.

As at April 30, 2010, the Corporation had a committed line of credit in the form of a revolving credit facility ("Tranche A") which matures in September 2012, for $400.0 million or the equivalent in U.S. dollars, of which $243.7 million was used.

In the third quarter of fiscal 2009, the Corporation obtained financing of €55.6 million ($74.8 million) from the European bank HypoVereinsbank, with a six-year term and bears interest at EURIBOR + 1.60%, to purchase production equipment over the next two years. This financing will be drawn in tranches, based on equipment delivery dates and will be payable in equal instalments of capital plus interest every six months from the date of the last draw, which cannot be later than July 2010. On December 1, 2009, the Corporation arranged a cross-currency swap, which matures in six years, to fix the exchange rate at 1.5761 and the interest rate on this facility at bankers' acceptance rate plus 2.55%. As at April 30, 2010, the Corporation had drawn 47.8 million euros ($64.3 million) on this financing (23.7 million euros [$37.7 million] at October 31, 2009).

The Corporation made commitments to acquire production equipment and to complete the renovation of a leased building. As at April 30, 2010, these commitments amounted to $28.2 million, or US$1.9 million, €6.5 million and C$17.5 million respectively. The minimum payments required in 2010 and 2011 are equivalent to $15.9 million and $12.3 million, respectively.

Off-Balance Sheet Arrangements (Securitization)

Under its securitization agreement, the Corporation sells, on an on-going basis, certain of its receivables to a trust that has sold its beneficial interest to third-party investors. The maximum net consideration allowable under the program is $300.0 million, including a maximum of $100.0 million in U.S. dollars. The program matures in August 2010.

As at April 30, 2010, the accounts receivable sold under the securitization program amounted to $191.4 million ($240.3 million as at October 31, 2009), which was entirely kept by the Corporation as retained interest ($128.4 million as at October 31, 2009), resulting in a nil net consideration ($111.9 million as at October 31, 2009, including C$77.3 million and US$32.0 million). As at April 30, 2010, the maximum net consideration the Corporation could have obtained under the terms of the program was $155.1 million ($202.3 million as at October 31, 2009). The retained interest is recorded in the Corporation's accounts receivable at the lower of cost and fair market value. Under the program, the Corporation recognized an aggregate discount on sale of accounts receivable of $0.3 million for the second quarter 2010 ($1.4 million for the second quarter 2009). The Corporation is in compliance with all its covenants under the agreements governing this program.

PRINCIPAL ACCOUNTING ESTIMATES

The Corporation prepares its consolidated financial statements in Canadian dollars and in accordance with Canadian GAAP. A summary of the significant accounting policies is presented in Note 1 of the Consolidated Financial Statements for the fiscal year ended October 31, 2009. Some of the Corporation's accounting policies require estimates and judgments. The most significant areas requiring the use of management estimates and judgments include goodwill, intangible assets, accounting for future employee benefits and income taxes. Management reviews its estimates on an on-going basis, taking into account historical data and other factors, including the current economic situation. Given that future events or changes in circumstances and their effects cannot be determined accurately, actual results could differ materially from Management's estimates. Changes in these estimates resulting from on-going change in the economic situation will be reflected in the financial statements of subsequent periods. For more information, please see *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

EFFECT OF NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Business Combinations

In January 2009, CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination.

Consolidated Financial Statements

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the like-named Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements.

Non-controlling Interests

In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated Financial Statements. This Section applies to interim and annual financial statements for fiscal years

beginning on or after January 1, 2011. The Section establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements.

International Financial Reporting Standards (IFRS)

In February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011.

For the Corporation, the conversion to IFRS will be required for interim and annual financial statements for the year ending October 31, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences on recognition, measurement and disclosures.

The Corporation is required to qualitatively disclose its changeover impacts in conjunction with its 2010 financial reporting as well as quantitative information if available, with its interim and annual financial reporting for the year ending October 31, 2011. This information will be used by the Corporation to present comparative information in its financial statements for the year ending October 31, 2012.

The Corporation set up an organizational project management team composed of members from different levels and positions to oversee project coordination and monitoring. Staff with the appropriate qualifications and experience have been assigned to the project.

The Corporation's conversion plan consists of three phases:

Phase 1 – Evaluation
During this phase the Corporation performed a high-level identification of the major differences between IFRS and the Corporation's accounting policies as well as an evaluation of the key areas that may be impacted by the transition to IFRS. A detailed conversion plan was developed. Since changes are expected to IFRS standards during the conversion period and could impact the conversion plan, a monitoring process was established.

Phase 2 – Conversion
In this phase, the Corporation designs and develops solutions to address the differences identified in phase 1. Changes required to the existing accounting policies, financial reporting, information systems, business processes and internal controls will be identified in order to perform conversion to IFRS. Impacts on contractual arrangements are evaluated and modifications made as required. A change management strategy is implemented to respond to the information and training needs of the different stakeholders

Phase 3 – Implementation
The objective of this final phase is to enable continued IFRS reporting and to facilitate knowledge sharing. Changes identified in phase 2 are implemented and tested to ensure that any difference is addressed prior to the changeover date. The change management strategy initiated in phase 2 continues until completion of the conversion.

The Corporation has completed Phase 1 and began Phase 2 in fiscal 2009. Preliminary evaluation of the differences in the Corporation's accounting policies and primary aspects has been completed, as has the priorization of the standards to be analyzed in Phase 2.

The following table shows the progress of the IFRS changeover as at April 30, 2010.

	Main Activities	Schedule	Status
Financial Information	Identify and analyze the differences between IFRS and the Corporation's accounting policies. Design and develop solutions to resolve the differences. Select from among the IFRS accounting standards and the exemptions permitted in accordance with IFRS 1. Develop a model for IFRS financial statements, including notes.	Completed before October 31, 2010. Follow up and updates during fiscal 2011.	Completed the preliminary identification and evaluation of differences and selections. In progress: detailed analysis of differences and selection of accounting policies.
	Prepare the opening balance sheet and compile the financial information for preparing the comparative IFRS financial statements.	During fiscal 2011.	To come.
Information Systems and Processes	Evaluate the impact of the changes on information systems and processes and make changes as required. Formulate and implement a strategy for compiling the information in parallel (based on Canadian GAAP and IFRS) during fiscal 2011.	Modify the information systems and processes finalized in time to compile financial information during fiscal 2011. Follow up and update during fiscal 2011.	Completed: Overall evaluation of potential impact on information systems and processes. Evaluated: Impacts on information systems and processes, with detailed analysis of differences with respect to financial information.
Internal Controls	Evaluate the impact of the changes on internal controls on financial information and controls and procedures for communicating information and implement the changes as required.	Implement the changes required starting in second quarter of fiscal 2011. Follow up and updates during fiscal 2011.	Evaluated: Impact on internal controls, plus detailed analysis of differences with respect to financial information.
Training and Communication	Identify training needs and provide training.	Training sessions in fiscal 2010 and 2011.	Specific training given to primary actors in the changeover process and general training given to finance function employees.
	Communicate the progress of the changeover plan to stakeholders.	Regular communications in fiscal 2010 and 2011.	Developed: Communication plan with regular communication of the plan as it progresses.
Business	Evaluate the impact on the Corporation's contractual undertakings (compliance with restrictive financial clauses, compensation plans, etc.). Make changes required to contractual agreements.	Changes made before October 31, 2011.	Completed: Overall evaluation of potential impacts on agreements. Evaluated: Impact on contractual agreements, plus detailed analysis of differences with respect to financial information.

Differences between IFRS and the Corporation's accounting policies

The following items have been identified as possibly having an impact on the Corporation's financial statements. This is not an exhaustive list of the impacts of the transition to IFRS and changes could be made before the changeover.

Subject	Items that could have an impact on the Corporation's financial statements
Employee Benefits (IAS 19)	• Under the IFRS, an entity may elect to recognize actuarial gains and losses using a corridor approach (which the Corporation uses) or recognize them immediately in other comprehensive income. The Corporation plans to continue using the corridor approach to recognition of actuarial gains and losses. • An exposure draft has been issued proposing the immediate recognition of actuarial gains and losses in other comprehensive income and the presentation of service costs and financial expenses in the profit or loss statement. The standard is expected to be published in 2011.
Borrowing Costs (IAS 23)	• IFRS requires capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets. Under Canadian GAAP, an entity may elect to capitalize borrowing costs or to expense them. The Corporation's accounting practice is to capitalize borrowing costs. • IFRS is more directive about the nature of capitalizable borrowing costs than Canadian GAAP. IFRS 1 offers an exemption that makes it possible to prospectively meet the requirements of IAS 23 for all qualifying assets whose borrowing costs are applied from a date prior to the transition date or from the transition date. The Corporation has not yet completed its analysis of these items.
Impairment of Assets (IAS 36)	• Asset impairment testing is done at the lowest cash generating unit (CGU) level. A CGU is defined as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is allocated to the CGU or groups of CGUs that should benefit from the synergies of a business combination. To determine whether an impairment should be recognized, the carrying amount of the CGU is compared to its recoverable amount, which is the higher of fair value less costs to sell and value in use (present value of future cash flows). Under Canadian GAAP, the carrying amount is compared to undiscounted future cash flows and if an impairment is required, the amount of the impairment is determined by comparing the carrying amount of the asset to its fair value. The impacts for the Corporation will be determined during the asset impairment test which will be done during the transition to IFRS. • Asset impairments other than goodwill impairments can be reversed under certain conditions. Canadian GAAP did not permit reversals.
Property, Plant and Equipment (IAS 16)	• Each part of property, plant and equipment having a material cost in relation to the total cost of the asset must be amortized separately. Under Canadian GAAP, an entity must amortize a major component separately when it is reasonably possible to do so and the service life of each component can be estimated. The Corporation has not yet completed its analysis of this item.
Financial Instruments: Recognition and Measurement (IAS 39)	• Under IFRS, an entity may derecognize a financial asset under certain conditions based on the concept of transferring risks and benefits. Under Canadian GAAP, the conditions for derecognizing a financial asset are based, instead, on the notion of transfer of control of the asset. For the Corporation, accounts receivable sold under the securitization arrangement may no longer satisfy the conditions for being derecognized under IFRS.
Interests in Joint Ventures (IAS 31)	• IFRS allows the recognition of interests in joint ventures using the proportionate consolidation method (which is used by the Corporation) or the equity method. The Corporation has not completed its analysis of this item. • An exposure draft has been issued proposing to eliminate the proportionate consolidation method. The standard is expected to be published in 2010.

IFRS 1, "First-time Adoption of International Financial Reporting Standards" is the standard which the Corporation must apply in preparing its opening IFRS statement of financial position. The purpose of this standard is to provide a starting point for IFRS-compliant accounting without spending more on the process than the benefits warrant. Thus certain relief measures, called exemptions, are permitted to avoid retroactive application of some standards. Some

exemptions are optional and others are required. The following list presents some exemptions that could have a significant impact for the Corporation. This list is not definitive or exhaustive and the quantitative impacts will be disclosed when they are known.

Exemption	Description and Status
Employee Benefits	IAS 19 Employee Benefits requires actuarial gains and losses to be measured in accordance with IFRS from plan start dates to the date of transition to IFRS. IFRS 1 allows recognition of accumulated actuarial gains and losses in retained earnings as at the transition date and prospective application of IAS 19. The Corporation plans to use this exemption.
Cumulative Translation Differences	IAS 21 Effects of Changes in Foreign Exchange Rates requires that translation differences be calculated in compliance with IFRS from the acquisition date or from the date of creation of the foreign operation. IFRS 1 allows the cumulative translation differences for all foreign operations to be set to zero at the date of transition. The gain or loss on subsequent disposal of a foreign operation will therefore only include foreign exchange differences arising subsequent to the date of transition to IFRS. The Corporation plans to adopt this exemption.

RISKS AND UNCERTAINTIES

The Corporation attempts to continually reduce its exposure to risks and uncertainties that it may encounter in its operating sectors or treasury situation. As a result, the Director of Risk Management and management continually review together overall controls and preventive measures to ensure they are better matched to significant risks to which the Corporation's operating activities are exposed. A report on our risk-management program is reviewed once a year by the Audit Committee.

Managing the Corporation's risks is a major factor behind the decisions taken by management with regard to acquisitions, capital investments, disposal of assets, regrouping of plants, or efforts to create synergies among operating sectors. This focus also guides decisions regarding cost-reduction measures, product diversification, new market penetration, and certain treasury movements. Below is a list of the main risks the Corporation is exposed to that could have a significant impact on its financial situation and strategies it is taking to mitigate them.

Financial Risks

Availability of Capital and Use of Financial Leverage

In fiscal 2009, the Corporation completed substantive financing and re-financing activities in order to meet the needs of its capital expenditure program and to secure additional financial flexibility.

Although the Corporation has carried out all these financing and refinancing activities during a major economic crisis, there is no guarantee that additional funds will be available in the future, and if they are, that they will be provided in a timeframe and under conditions acceptable to the Corporation.

Our receivables securitization program of $300.0 million, which was unused as at April 30, 2010 matures in August 2010. Note that we expect that we will be able to renew our receivables securitization program in the near future to provide additional flexibility for the financing of our future capital requirements.

This risk is mitigated by the fact that the Corporation is in good financial condition with a ratio of net funded debt (including the securitization program) to adjusted operating income before amortization of 2.08. Also, the Corporation's available cash flows will be higher in fiscal 2010 given the additional cash flows generated by the *San Francisco Chronicle* project and the fact that capital expenditures will be lower than in fiscal 2009. There is no assurance that the Corporation will be able to increase distributions to shareholders by way of dividends.

Interest Rate

Transcontinental is exposed to market risks related to interest-rate fluctuations. As at April 30, 2010, taking derivative financial instruments into account, the fixed rate portion of the Corporation's long-term debt represented 65% of the total, while the floating rate portion represented 35% (64% and 36%, respectively, as at October 31, 2009).

In order to mitigate this risk the Corporation tries to keep a good balance of fixed versus floating rate debt.

No major change in the second quarter 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Credit

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Pension Plans

On June 1st, 2010, the Corporation replaced its hybrid and defined benefit pension plans with defined contribution plans. As a result, the Corporation limits its risk for past service credited under the hybrid and defined benefit plans, since it does not incur any risk for future service under the defined contribution plans. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009.*

Operational Risks

Economic Cycles

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Competition

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Geographic Distribution and Exchange Rate

The Canadian-U.S. dollar exchange rate varied considerably in second quarter 2010, compared to the second quarter 2009. The average exchange rate was 1.2400 CAD/USD in second quarter 2009, compared to an average of 1.0495 CAD/USD during the second quarter of fiscal 2010.

The currency-hedging program uses derivatives to protect the Corporation from the risk of short-term currency fluctuations. Moreover, Transcontinental attempts to match cash inflows and outflows in the same currency. The policy approved by the Corporation's Board of Directors permits hedging of 50% to 100% of net cash flows for a period of one to 12 months, 25% to 50% for the subsequent 12 months and up to 33% for the following 12 months.

As at April 30, 2010, using forward contracts to manage the exchange rate risk related to its exports to the United States, the Corporation had contracts to sell US$113 million (US$118 million as at October 31, 2009), of which $39 million, $41 million and $33 million will be sold in fiscal 2010, 2011 and 2012, respectively. The terms of these forward contracts range from one month to 25 months, with rates varying from 1.0310 to 1.2839. Hedging

relationships were effective and in accordance with the risk management objectives and strategies throughout the second quarter 2010.

New media

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Difficulty in Hiring Qualified Personnel

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.
Impairment Tests

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Exchange of Confidential Information

With the sale of almost all our direct mail operations in the United States, we reduced our exposure to the risk involved in the exchange of confidential information. The Corporation is still exposed to this risk in its other operations. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Business Development

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Integration of Acquisitions

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Loss of Reputation

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Participating Shares and Preferred Shares

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Environmental Risks

No major change occurred in second quarter of fiscal 2010. For more information, please refer to the Environment section of *Management's Discussion and Analysis for the Year Ended October 31, 2009* and the *Sustainability Report 2009 – Committing ourselves to performance.*

Raw Material and Postal Risks

Raw Materials and Energy Prices

No major change occurred in second quarter of fiscal 2010. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

Future Policies of the Canadian and U.S. Postal Systems

The sale of almost all our direct mail operations in the United States considerably reduced our exposure to postal mailing risk. However, the Corporation remains exposed to this risk through its other activities. For more information, please refer to *Management's Discussion and Analysis for the Year Ended October 31, 2009*.

DISCLOSURE CONTROLS AND PROCEDURES

Transcontinental's President and Chief Executive Officer and its Vice President and Chief Financial Officer are responsible for establishing and maintaining the Corporation's disclosure controls and procedures.

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified under Canadian securities laws, and include controls and procedures that are designed to ensure that information is accumulated and communicated to management, including the President and Chief Executive Officer and Vice President and Chief Financial Officer to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal control over financial reporting during the quarter ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

OUTLOOK

First, we expect more sustained growth in our Marketing Communications Sector by the end of fiscal 2010, given our capacity to integrate our digital solutions with custom marketing programs. This offering is perfectly complemented by the strategic acquisition of LIPSO Systems with its aggregated mobile solutions encompassing connectivity, transaction management and applications development, to meet growing demand for such services from our customers.

We will also continue to put considerable effort into *The Globe and Mail* project, with production scheduled to start in early fiscal 2011. Note that this project will bring in additional revenues of close to $25 million per year and involves setting up a unique Canada-wide network to print newspapers and flyers, and will alone account for more than two-thirds of the Corporation's capital expenditures in fiscal 2010. The project will allow us to print *The Globe and Mail*

under an 18-year contract that will take effect from the start of production. We will also continue to print the *San Francisco Chronicle*, which will generate higher cash flows than in fiscal 2009 in the third quarter.

In the Media Sector, we are expecting a certain recovery in the advertising budgets of national advertisers, which should benefit our Business and Consumer Solutions Group as well as, to a lesser extent, our Local Solutions Group. The development of our multiple digital platforms should also increase revenues from our New Media and Digital Solutions Group in coming quarters.

Although we are seeing a stabilization in a number of our niches, some segments will remain sensitive to market conditions and production overcapacity. Our magazine, book and catalogue printing operations will likely continue to see lower page and copy counts, and less demand for specialty products and religious works, while being exposed to the higher Canadian versus U.S. dollar for its exports to the United States. Our marketing product printing operations will likely also continue to be affected by lower corporate marketing budgets, as well as increased overcapacity.

In the first two quarters of fiscal 2010, the Corporation greatly benefited from the rationalization measures implemented as of February 2009. The financial impact of these measures will decrease through to the end of fiscal 2010. However, though not to the same degree, the Corporation continues to improve in terms of operational efficiency, which will partially offset the reduced impact of the rationalization measures in the second half of fiscal 2010.

Furthermore, following our second quarter, we now believe that our capital expenditures program will be somewhat lower than anticipated and now estimate that it will amount to slightly more than $150 million.

On behalf of Management,

Benoît Huard
Vice President and Chief Financial Officer

June 8, 2010

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

unaudited

(in millions of dollars, except per share data)	Three months ended April 30		Six months ended April 30	
	2010	2009	**2010**	2009
Revenues	**$ 510.0**	$ 531.1	**$ 1,021.6**	$ 1,095.9
Operating costs	**354.1**	394.2	**728.4**	831.0
Selling, general and administrative expenses	**64.9**	59.9	**121.1**	128.7
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets	**91.0**	77.0	**172.1**	136.2
Amortization (Note 3)	**32.7**	29.4	**66.5**	57.7
Impairment of assets and restructuring costs (Note 4)	**2.8**	23.9	**4.7**	40.4
Impairment of goodwill and intangible assets (Note 5)	**-**	169.3	**-**	169.3
Operating income (loss)	**55.5**	(145.6)	**100.9**	(131.2)
Financial expenses (Note 6)	**10.5**	8.7	**20.5**	16.1
Discount on sale of accounts receivable (Note 10)	**0.3**	1.4	**0.9**	3.1
Income (loss) before income taxes and non-controlling interest	**44.7**	(155.7)	**79.5**	(150.4)
Income taxes (recovered) (Note 7)	**10.7**	(13.6)	**15.5**	(16.1)
Non-controlling interest	**-**	(0.1)	**0.3**	0.2
Net income (loss) from continuing operations	**34.0**	(142.0)	**63.7**	(134.5)
Net income (loss) from discontinued operations (Note 8)	**34.7**	(2.3)	**32.9**	(16.2)
Net income (loss)	**68.7**	(144.3)	**96.6**	(150.7)
Dividends on preferred shares, net of related income taxes	**1.7**	-	**3.4**	-
Net income (loss) applicable to participating shares	**$ 67.0**	$ (144.3)	**$ 93.2**	$ (150.7)
Net income (loss) per participating share - basic and diluted (Note 12)				
Continuing operations	**$ 0.40**	$ (1.76)	**$ 0.75**	$ (1.67)
Discontinued operations	**0.43**	(0.03)	**0.41**	(0.20)
	$ 0.83	$ (1.79)	**$ 1.16**	$ (1.87)
Average number of participating shares outstanding (in millions)	**80.8**	80.8	**80.8**	80.8

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

unaudited

(in millions of dollars)	Three months ended April 30		Six months ended April 30	
	2010	2009	**2010**	2009
Net income (loss)	**$ 68.7**	$ (144.3)	**$ 96.6**	$ (150.7)
Other comprehensive income (loss):				
Unrealized net change in fair value of derivatives designated as cash flow hedges, net of income taxes of $1.5 million and ($0.4) million for the three-month and six-month periods ended April 30, 2010 ($1.5 million and ($0.3) million for the same periods in 2009)	**(0.3)**	3.5	**(5.4)**	(2.3)
Reclassification adjustments for net change in fair value of derivatives designated as cash flow hedges in prior periods, transferred to net income in the current period, net of income taxes of $0.5 million and $0.6 million for the three-month and six-month periods ended April 30, 2010 ($0.6 million and $2.1 million for the same periods in 2009)	**5.3**	1.9	**7.2**	5.2
Net change in fair value of derivatives designated as cash flow hedges	**5.0**	5.4	**1.8**	2.9
Unrealized net gains (losses) on translation of financial statements of self-sustaining foreign operations	**(2.0)**	3.6	**(2.9)**	(1.8)
Other comprehensive income (loss) (Note 15)	**3.0**	9.0	**(1.1)**	1.1
Comprehensive income (loss)	**$ 71.7**	$ (135.3)	**$ 95.5**	$ (149.6)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

unaudited

(in millions of dollars)	Six months ended April 30	
	2010	2009
Balance, beginning of period	**$ 645.9**	$ 753.5
Net income (loss)	**96.6**	(150.7)
	742.5	602.8
Dividends on participating shares	**(13.8)**	(12.9)
Dividends on preferred shares	**(3.6)**	-
Balance, end of period	**$ 725.1**	$ 589.9

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS
unaudited

(in millions of dollars)	As at April 30, 2010	As at October 31, 2009
Current assets		
Cash and cash equivalents	$ 14.6	$ 34.7
Accounts receivable (Note 10)	358.8	306.0
Income taxes receivable	17.3	4.1
Inventories	74.7	74.3
Prepaid expenses and other current assets	21.5	20.1
Future income taxes	8.4	11.0
	495.3	450.2
Property, plant and equipment	932.3	938.8
Goodwill (Note 5)	672.7	673.4
Intangible assets	186.4	184.3
Future income taxes	143.6	141.5
Other assets	57.9	68.3
Assets from discontinued operations (Note 8)	-	93.2
	$ 2,488.2	$ 2,549.7
Current liabilities		
Accounts payable and accrued liabilities	$ 268.3	$ 360.0
Income taxes payable	28.1	27.0
Deferred subscription revenues and deposits	39.0	37.2
Future income taxes	2.0	0.5
Current portion of long-term debt (Note 11)	5.9	7.0
	343.3	431.7
Long-term debt (Note 11)	786.7	818.8
Future income taxes	107.0	109.0
Other liabilities	57.4	43.8
Liabilities from discontinued operations (Note 8)	-	31.1
	1,294.4	1,434.4
Non-controlling interest	0.3	0.1
Commitments (Note 17)		
Shareholders' equity		
Share capital	476.3	476.5
Contributed surplus (Note 14)	13.3	12.9
Retained earnings	725.1	645.9
Accumulated other comprehensive loss (Note 15)	(21.2)	(20.1)
	703.9	625.8
	1,193.5	1,115.2
	$ 2,488.2	$ 2,549.7

The notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
unaudited

(in millions of dollars)	Three months ended April 30		Six months ended April 30	
	2010	2009	**2010**	2009
Operating activities				
Net income (loss)	**$ 68.7**	$ (144.3)	**$ 96.6**	$ (150.7)
Less : Net income (loss) from discontinued operations (Note 8)	**34.7**	(2.3)	**32.9**	(16.2)
Net income (loss) from continuing operations	**34.0**	(142.0)	**63.7**	(134.5)
Items not affecting cash and cash equivalents				
Amortization (Note 3)	**38.7**	35.2	**78.8**	68.4
Impairment of assets (Note 4)	**0.2**	8.4	**0.3**	24.9
Impairment of goodwill and intangible assets (Note 5)	**-**	169.3	**-**	169.3
Gain on disposal of assets	**(0.2)**	(1.2)	**(0.6)**	(1.3)
Future income taxes	**(2.6)**	(21.3)	**(9.1)**	(29.1)
Net change in accrued pension benefit asset and liability	**1.3**	(1.7)	**(0.7)**	(4.1)
Stock-based compensation (Note 13)	**1.1**	0.6	**1.6**	0.8
Other	**(1.8)**	3.3	**(0.8)**	5.8
Cash flow from operating activities before changes in non-cash operating items	**70.7**	50.6	**133.2**	100.2
Changes in non-cash operating items	**(128.1)**	(74.2)	**(134.0)**	(91.0)
Cash flow related to operating activities of continuing operations	**(57.4)**	(23.6)	**(0.8)**	9.2
Cash flow related to operating activities of discontinued operations	**7.1**	1.7	**5.8**	(21.6)
	(50.3)	(21.9)	**5.0**	(12.4)
Investing activities				
Business acquisitions (Note 16)	**(2.2)**	(1.3)	**(2.8)**	(13.0)
Acquisitions of property, plant and equipment	**(26.3)**	(62.6)	**(89.0)**	(159.8)
Disposals of property, plant and equipment	**0.8**	3.0	**1.6**	3.1
Increase in intangible assets and other assets	**(7.4)**	(9.3)	**(10.6)**	(11.5)
Cash flow related to investing activities of continuing operations	**(35.1)**	(70.2)	**(100.8)**	(181.2)
Cash flow related to investing activities of discontinued operations	**93.0**	1.3	**92.2**	(0.2)
	57.9	(68.9)	**(8.6)**	(181.4)
Financing activities				
Increase in long-term debt	**4.8**	100.2	**37.7**	100.2
Reimbursement of long-term debt	**(2.7)**	(1.6)	**(7.8)**	(3.2)
Increase (decrease) in revolving term credit facility	**(16.9)**	(18.7)	**(29.6)**	28.1
Dividends on participating shares	**(7.3)**	(6.4)	**(13.8)**	(12.9)
Dividends on preferred shares	**(1.7)**	-	**(3.6)**	-
Other	**2.0**	(0.8)	**1.4**	(1.3)
Cash flow related to financing activities of continuing operations	**(21.8)**	72.7	**(15.7)**	110.9
Cash flow related to financing activities of discontinued operations	**(0.9)**	-	**(0.9)**	(0.3)
	(22.7)	72.7	**(16.6)**	110.6
Effect of exchange rate changes on cash and cash equivalents denominated in foreign currencies	**-**	(0.3)	**0.1**	(0.7)
Decrease in cash and cash equivalents	**(15.1)**	(18.4)	**(20.1)**	(83.9)
Cash and cash equivalents at beginning of period	**29.7**	25.2	**34.7**	90.7
Cash and cash equivalents at end of period	**$ 14.6**	$ 6.8	**$ 14.6**	$ 6.8
Additional information				
Interest paid	**$ 11.1**	$ 3.1	**$ 20.4**	$ 14.6
Income taxes paid (recovered)	**$ 35.0**	$ (0.6)	**$ 34.1**	$ 18.7

The notes are an integral part of the consolidated financial statements.

The interim financial statements should be read in conjunction with the most recent annual consolidated financial statements.

1. Significant accounting policies

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), using the same accounting policies as outlined in Note 1 and Note 2 to the consolidated financial statements for the year ended October 31, 2009. The operating results for the interim periods are not necessarily indicative of full-year results due to the seasonality of certain operations of the Corporation. Results of operations are significantly influenced by the advertising market, which is stronger in the second and fourth quarters. The back-to-school period is also the strongest for book printing and for our educational resources publishing unit.

On December 1st, 2009, the Corporation entered into a cross currency swap agreement to hedge among others i) the currency risk related to future purchases of production equipment, which will be financed by the €55.6 million ($74.8 million) facility obtained from European bank HypoVereinsbank and (or) ii) the currency risk related to payments of interest and principal of this facility denominated in euros. The cross currency swap agreement, whereby future purchases of production equipment denominated in euros and all payments of interest and principal on the facility denominated in euros have been set in Canadian dollars, is designated as a cash flow hedge.

Under hedge accounting, the Corporation applies the following policies:

For derivative financial instruments designated as cash flow hedges, the effective portion of the hedge is recorded in other comprehensive income and the ineffective portion is recorded in the consolidated statement of income. The effective portion of the currency risk hedging relationship related to future purchases of production equipment, deferred in accumulated other comprehensive income, is reclassified against the production equipment at initial recognition. The effective portion of the currency risk hedging relationship related to payments of interest and capital is reclassified to income in the period during which the hedged item affects income.

Interest expense on the hedged facility is recorded at the interest and foreign exchange rates of the hedge.

2. Effect of new accouting standards not yet implemented

a) Business Combinations
In January 2009, the CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination.

b) Consolidated Financial Statements
In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the like-named Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements.

c) Non-controlling Interests
In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated Financial Statements. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements.

The Corporation is currently evaluating the impact of the adoption of these new standards on the consolidated financial statements.

3. Amortization

	Three months ended April 30		Six months ended April 30	
(in millions of dollars)	**2010**	2009	**2010**	2009
Property, plant and equipment	**$ 28.8**	$ 26.5	**$ 58.6**	$ 52.4
Intangible assets	**3.9**	2.9	**7.9**	5.3
	32.7	29.4	**66.5**	57.7
Intangible assets and other assets, presented in revenues, operating costs and financial expenses	**6.0**	5.8	**12.3**	10.7
	$ 38.7	$ 35.2	**$ 78.8**	$ 68.4

4. Impairment of assets and restructuring costs

During the second quarter of fiscal 2009, the Corporation announced major rationalization measures to address the recession, including substantive cost-cutting measures throughout Canada, the United States and Mexico. The deterioration of the economy had reduced the communication and marketing investments of a number of customers of the Corporation. Therefore, commercial printing projects and magazine and newspaper advertising placements were cancelled or postponed by companies also affected by the recession. It is expected that theses measures will be completed in 2010.

The following table provides details of this plan:

	Three months ended April 30					
(in millions of dollars)	2010				2009	
	Liability as at January 31, 2010	Charged to income	Paid	Liability as at April 30, 2010	Charged to income	Paid
Rationalization Measures						
Printing						
Workforce reduction costs	$ 8.1	$ 2.2	$ 3.7	$ 6.6	$ 9.1	$ 2.4
Transfer of printing equipment and other costs	0.3	0.2	0.2	0.3	2.4	2.3
Marketing Communications						
Workforce reduction costs	0.7	-	0.1	0.6	1.1	1.1
Media						
Workforce reduction costs	1.0	0.2	0.2	1.0	2.9	2.9
	10.1	2.6	4.2	8.5	15.5	8.7
Printing						
Impairment of assets	n/a	0.1	n/a	n/a	5.7	n/a
Media						
Impairment of assets	n/a	0.1	n/a	n/a	2.7	n/a
	$ 10.1	$ 2.8	$ 4.2	$ 8.5	$ 23.9	$ 8.7
Total						
Workforce reduction costs	$ 9.8	$ 2.4	$ 4.0	$ 8.2	$ 13.1	$ 6.4
Transfer of printing equipment and other costs	0.3	0.2	0.2	0.3	2.4	2.3
Impairment of assets	n/a	0.2	n/a	n/a	8.4	n/a
	$ 10.1	$ 2.8	$ 4.2	$ 8.5	$ 23.9	$ 8.7

4. Impairment of assets and restructuring costs (continued)

(in millions of dollars)	Total		2010				2009	
			Six months ended April 30					
	Charged to income	Forecasted	Liability as at October 31, 2009	Charged to income	Paid	Liability as at April 30, 2010	Charged to income	Paid
Rationalization Measures								
Printing								
Workforce reduction costs	$ 27.2	$ 27.6	$ 8.8	$ 3.5	$ 5.7	$ 6.6	$ 9.1	$ 2.4
Transfer of printing equipment and other costs	3.7	3.8	0.1	0.5	0.3	0.3	2.4	2.3
Marketing Communications								
Workforce reduction costs	1.2	1.2	0.8	-	0.2	0.6	1.1	1.1
Media								
Workforce reduction costs	9.4	9.4	3.7	0.4	3.1	1.0	2.9	2.9
	41.5	42.0	13.4	4.4	9.3	8.5	15.5	8.7
Printing								
Impairment of assets	17.7	17.7	n/a	0.2	n/a	n/a	21.1	n/a
Media								
Impairment of assets	1.6	1.6	n/a	0.1	n/a	n/a	3.8	n/a
	$ 60.8	$ 61.3	$ 13.4	$ 4.7	$ 9.3	$ 8.5	$ 40.4	$ 8.7
Total								
Workforce reduction costs	$ 37.8	$ 38.2	$ 13.3	$ 3.9	$ 9.0	$ 8.2	$ 13.1	$ 6.4
Transfer of printing equipment and other costs	3.7	3.8	0.1	0.5	0.3	0.3	2.4	2.3
Impairment of assets	19.3	19.3	n/a	0.3	n/a	n/a	24.9	n/a
	$ 60.8	$ 61.3	$ 13.4	$ 4.7	$ 9.3	$ 8.5	$ 40.4	$ 8.7

5. Impairment of goodwill and intangible assets

During the second quarter of 2010, the Corporation has conducted its annual impairment test of goodwill. In assessing whether or not there is an impairment, the Corporation uses a combination of approaches to determine the fair value of a reporting unit, including both the discounted cash flows and the market approaches. Under the market approach, the Corporation estimates the fair value of the reporting unit by multiplying normalized earnings before amortization, interest and income taxes by multiples based on market inputs. If there is an indication of impairment, the Corporation uses a discounted cash flow model in estimating it. The future cash flows are based on the Corporation's estimates and include consideration for expected future operating results, economic conditions and a general outlook for the industry in which the reporting unit operates.

For the six-month period ended April 30, 2010, no impairment charge of goodwill is required. For the same period in 2009, due to the difficult economic conditions, the Corporation had recorded an amount of $166.5 million as impairment of goodwill in the Printing and Marketing Communications sector, mostly related to commercial printing activities, and $2.8 million as impairment of tradenames related to the consumers solutions group in the Media sector.

6. Financial expenses

(in millions of dollars)	Three months ended April 30 2010	2009	Six months ended April 30 2010	2009
Financial expenses on long-term debt	$ 9.5	$ 8.2	$ 19.9	$ 15.2
Other expenses	0.8	0.8	1.5	1.1
Foreign exchange loss (gain)	0.2	(0.3)	(0.9)	(0.2)
	$ 10.5	$ 8.7	$ 20.5	$ 16.1

For the three-month and six-month periods ended April 30, 2010, capitalized interest on property, plant and equipment amounted to $0.6 million and $1.3 million, respectively ($1.0 million and $2.6 million for the same periods in 2009).

7. Income taxes

	Three months ended April 30		Six months ended April 30	
(in millions of dollars)	**2010**	2009	**2010**	2009
Income taxes at statutory tax rate	**$ 13.4**	$ (48.1)	**$ 23.9**	$ (46.4)
Effect of foreign tax rate differences	**(1.8)**	(4.5)	**(3.7)**	(7.7)
Permanent difference on impairment of goodwill	**-**	37.8	**-**	37.8
Effect of Ontario corporate income tax rate reductions (a)	**-**	-	**(2.4)**	-
Other	**(0.9)**	1.2	**(2.3)**	0.2
Income taxes at effective tax rate	**$ 10.7**	$ (13.6)	**$ 15.5**	$ (16.1)

Income taxes include the following items:

Income taxes before the following items:	**$ 11.5**	$ 7.6	**$ 19.3**	$ 9.8
Income taxes on impairment of assets and restructuring costs (Note 4)	**(0.8)**	(6.6)	**(1.4)**	(11.3)
Income taxes on impairment of goodwill and intangible assets (Note 5)	**-**	(14.6)	**-**	(14.6)
Effect of changes in statutory tax rates (a)	**-**	-	**(2.4)**	-
Income taxes at effective tax rate	**$ 10.7**	$ (13.6)	**$ 15.5**	$ (16.1)

a) Corporate tax rate reductions announced in the March 26, 2009 Ontario budget were adopted on December 15, 2009. These reductions in corporation tax rates have reduced the income tax expense and net future income tax liabilities by $2.4 million in the first quarter of fiscal 2010.

8. Discontinued operations

On February 10, 2010, the Corporation signed an agreement with IWCO Direct, a U.S.-company headquartered in Minnesota, to sell substantially all of its high-volume direct mail assets in the United States, for net proceeds of $105.7 million, subject to a price adjustment clause based on the working capital at the date of transaction. This group of the Printing sector generated revenues of approximately US$170.0 million in 2009 and employs about 1,200 people. The closing of the transaction took place on April 1st, 2010.

The following table presents the results of discontinued operations:

(in millions of dollars)	Three months ended April 30		Six months ended April 30	
	2010	2009	**2010**	2009
Revenues	**$ 29.9**	$ 51.0	**$ 77.5**	$ 111.6
Expenses	**34.5**	55.1	**84.6**	136.1
Loss before income taxes	**(4.6)**	(4.1)	**(7.1)**	(24.5)
Income taxes recovered	**(1.0)**	(1.8)	**(1.7)**	(8.3)
Loss related to the operation of discontinued operations	**(3.6)**	(2.3)	**(5.4)**	(16.2)
Gain related to the discontinuance of operations, net of related income taxes of 25.0	**38.3**	-	**38.3**	-
Net income (loss) from discontinued operations	**$ 34.7**	$ (2.3)	**$ 32.9**	$ (16.2)

The following table presents the net assets from discontinued operations:

(in millions of dollars)	**As at April 30, 2010**	As at October 31, 2009
Short-term assets	**$ -**	$ 32.4
Long-term assets	**-**	60.8
	$ -	$ 93.2
Short-term liabilities	**$ -**	$ 25.4
Long-term liabilities	**-**	5.7
	$ -	$ 31.1
Net assets from discontinued operations	**$ -**	$ 62.1

9. Pension plans

The Corporation offers various contributory and non-contributory defined benefit pension plans and defined contribution pension plans to its employees and those of its participating subsidiaries. On February 1st, 2010, the Corporation announced the conversion, for future service, of its defined benefit pension plans into defined contribution pension plans beginning June 1st, 2010. Consequently, a special curtailment expense of $3.3 million was recorded in the consolidated financial statements of the second quarter of fiscal 2010.

The cost related to these plans is as follows:

	Three months ended April 30		Six months ended April 30	
(in millions of dollars)	**2010**	2009	**2010**	2009
Defined benefit pension plans	**$ 7.3**	$ 4.5	**$ 11.3**	$ 8.7
Defined contribution pension plans	**0.6**	0.5	**1.1**	1.0
	$ 7.9	$ 5.0	**$ 12.4**	$ 9.7

10. Accounts receivable

The Corporation sells its accounts receivable through a securitization program, which matures in August 2010, whose maximum net consideration is $300.0 million, including a maximum of US$100.0 million. Under this program, the Corporation sells, on a continuous basis some of its accounts receivable to a trust who has sold the beneficial rights to investors unrelated to the Corporation.

The following table provides details of accounts receivable sold under this program:

(in millions of dollars)	**As at April 30, 2010**	As at October 31, 2009
Accounts receivable sold	**$ 191.4**	$ 240.3
Retained interest	**191.4**	128.4
Net consideration	**$ -**	$ 111.9
Net consideration in Canadian dollars	**$ -**	$ 77.3
Net consideration in U.S. dollars (US$32,0 million in 2009)	**$ -**	$ 34.6

As at April 30, 2010, the maximum net consideration that the Corporation could have obtained in accordance with the agreement terms and conditions was $155.1 million ($202.3 million as at October 31, 2009).

11. Long-term debt

As at October 31, 2009, the Corporation had a committed line of credit in the form of a term revolving credit facility, totalling $550.0 million or the US dollar equivalent, divided in two tranches, A and B, of $400.0 million and $150.0 million, respectively. On December 4, 2009, the Corporation repaid and cancelled Tranche B of $150.0 million. The maturity of Tranche B was to be May 14, 2010. The term revolving credit facility of the Corporation now consists solely of Tranche A which matures in September 2012. Moreover, during the second quarter of fiscal 2010, following the sale of its high-volume direct mail assets in the United States, the Corporation repaid the US dollar portion of its term revolving credit facility for US$103.0 million.

During the third quarter of fiscal 2009, the Corporation concluded a six-year financing of €55.6 million ($74.8 million) with European bank HypoVereinsbank, bearing interest at EURIBOR + 1.60%, to acquire various production equipment over the next two years. This financing will be drawn in tranches, based on equipment delivery dates, and will be repayable in equal instalments including principal plus interest, every six months from the date of the last drawdown, which cannot be later than July 2010. On December 1st, 2009, the Corporation entered into a six-year cross currency swap agreement, to lock the exchange rate at 1.5761 and to convert the interest rate to banker's acceptance rate plus 2.55%. As at April 30, 2010 an amount of €47.8 million ($64.3 million) was drawn from this facility (€23.7 million ($37.7 million) as at October 31, 2009).

12. Net income (loss) per participating share

The following table is a reconciliation of the components used in the calculation of basic and diluted net income (loss) from continuing operations per share for the three-month and six-month periods ended April 30:

	Three months ended April 30		Six months ended April 30	
	2010	2009	**2010**	2009
Numerator (in millions of dollars)				
Net income (loss) from continuing operations	**$ 34.0**	$ (142.0)	**$ 63.7**	$ (134.5)
Dividends on preferred shares, net of related income taxes	**1.7**	-	**3.4**	-
Net income (loss) from continuing operations, applicable to participating shares	**$ 32.3**	$ (142.0)	**$ 60.3**	$ (134.5)
Denominator (in millions)				
Weighted average number of participating shares - basic	**80.8**	80.8	**80.8**	80.8
Weighted average number of dilutive options	**0.1**	-	**0.1**	-
Weighted average number of participating shares - diluted	**80.9**	80.8	**80.9**	80.8

In the calculation of the diluted net income (loss) per share, 1,064,160 stock options were considered anti-dilutive as at April 30, 2010 (2,053,716 for the same period in 2009), since their exercise price was greater than the average stock price during the period. Therefore, these stock options were excluded from the calculation.

13. Stock-based compensation plans

Stock option plan

The Corporation offers a stock option plan for the benefit of certain of its officers and senior executives. Under the plan, each stock option entitles its holder to receive one share upon exercise and the exercise price is determined using the weighted average price of all trades for the five days immediately preceding the grant of the stock option.

Stock-based compensation costs of $0.2 million and $0.4 million were charged to income and as an increase to contributed surplus of shareholders' equity for the three-month periods ended April 30, 2010 and 2009, respectively. For the six-month periods ended April 30, 2010 and 2009, the expense was $0.4 million and $0.9 million, respectively.

The following table summarizes the changes in outstanding stock options:

	Three months ended April 30			
	2010		2009	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**2,045,585**	**$ 16.78**	2,096,496	$ 17.26
Exercised	**(5,200)**	**10.48**	-	-
Cancelled	**(255,065)**	**21.40**	(42,780)	19.43
Balance, end of period	**1,785,320**	**$ 16.14**	2,053,716	$ 17.21

	Six months ended April 30			
	2010		2009	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of period	**2,006,575**	**$ 17.23**	1,820,621	$ 18.61
Granted	**173,100**	**13.09**	317,700	9.64
Exercised	**(20,320)**	**9.50**	-	-
Cancelled	**(374,035)**	**20.95**	(84,605)	18.95
Balance, end of period	**1,785,320**	**$ 16.14**	2,053,716	$ 17.21
Options exercisable as at April 30	**1,254,970**	**$ 17.56**	1,444,426	$ 18.56

Exercise of stock options

When senior executives exercise their stock options, the amounts received from them are credited to share capital. For stock options granted since November 1, 2002, the amount previously accounted for as an increase to contributed surplus is also transferred to share capital. For the three-month and six-month periods ended April 30, 2010, the amounts received were $0.1 million and $0.2 million, respectively. For the three-month and six-month periods ended April 30, 2009, there was no exercise of stock options. No amount was transferred from contributed surplus to share capital for these periods.

13. Stock-based compensation plans (continued)

The following table summarizes the assumptions used to calculate the weighted average fair value of stock options granted on the date of grant using the Black-Scholes model for the six-month periods ended April 30:

	2010	2009
Fair value of stock options	$ 4.31	$ 3.90
Assumptions:		
Dividend rate	1.5 %	1,4 %
Expected volatility	38.6 %	32,2 %
Risk-free interest rate	2.74 %	2,09 %
Expected life	5 years	5 years

Share unit plan for senior executives

The Corporation offers a share unit plan to its senior executives under which deferred share units ("DSU") and restricted share units ("RSU") are granted.

The following table provides details of this plan:

	Three months ended April 30			
Number of units	2010	2009	2010	2009
	DSU		RSU	
Balance, beginning of period	121,060	133,675	765,121	586,334
Units cancelled	-	-	(49,929)	(13,099)
Units paid	(1,306)	-	-	-
Dividends paid in units	641	141	-	-
Balance, end of period	120,395	133,816	715,192	573,235

	Six months ended April 30			
Number of units	2010	2009	2010	2009
	DSU		RSU	
Balance, beginning of period	127,870	103,282	548,808	221,357
Units granted	53,240	44,081	277,013	384,865
Units cancelled	(58,141)	(13,688)	(104,545)	(32,987)
Units paid	(3,799)	-	(6,084)	-
Dividends paid in units	1,225	141	-	-
Balance, end of period	120,395	133,816	715,192	573,235

The expense recorded in the consolidated statements of income (loss) for the three-month periods ended April 30, 2010 and 2009 was $0.7 million and $0.3 million, respectively. For the six-month periods ended April 30, 2010 and 2009, the expense recorded in the consolidated statements of income (loss) was $1.5 million and $0.2 million, respectively. An amount of $0.1 million has been paid under the plan for the six-month period ended April 30, 2010 (no amount was paid for the three-month period ended April 30, 2010, or for the three-month and six-month periods ended April 30, 2009).

Share unit plan for directors

The Corporation offers a deferred share unit plan for its directors. Under this plan, directors may elect to receive either cash, deferred share units, or a combination of both for their compensation.

The following table provides details of this plan:

	Three months ended April 30		Six months ended April 30	
Number of units	2010	2009	2010	2009
Balance, beginning of period	135,179	124,593	167,783	108,621
Directors compensation	8,073	15,106	15,614	30,095
Units paid	-	-	(40,923)	-
Dividends paid in units	912	1,361	1,690	2,344
Balance, end of period	144,164	141,060	144,164	141,060

The expense (reversal) recorded in the consolidated statements of income (loss) for the three-month periods ended April 30, 2010 and 2009 was $0.2 million and ($0.1) million, respectively. For the six-month periods ended April 30, 2010 and 2009, the expense (reversal) recorded in the consolidated statements of income (loss) was $0.3 million and ($0.3) million, respectively. An amount of $0.5 million has been paid under the plan for the six-month period ended April 30, 2010 (no amount was paid for the three-month period ended April 30, 2010, or for the three-month and six-month periods ended April 30, 2009).

14. Contributed surplus

(in millions of dollars)	Six months ended April 30 2010	2009
Balance, beginning of period	$ **12.9**	$ 11.3
Compensation costs relating to stock option plan (Note 13)	**0.4**	0.9
Balance, end of period	$ **13.3**	$ 12.2

15. Accumulated other comprehensive loss

(in millions of dollars)	Foreign Currency Translation Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance as at November 1, 2008	$ (25.5)	$ (15.2)	$ (40.7)
Net change in unrealized gains (losses), net of income taxes	(1.8)	2.9	1.1
Balance as at April 30, 2009	$ (27.3)	$ (12.3)	$ (39.6)
Balance as at November 1, 2009	$ **(20.8)**	$ **0.7**	$ **(20.1)**
Net change in unrealized gains (losses), net of income taxes	**(2.9)**	**1.8**	**(1.1)**
Balance as at April 30, 2010	$ **(23.7)**	$ **2.5**	$ **(21.2)**

As at April 30, 2010, the amounts expected to be reclassified to net income are as follows:

(in millions of dollars)	2010	2011	2012	2013	2014	2015	2016	Total
Gains (losses) on derivatives designated as cash flow hedges	$ (1.0)	$ 0.8	$ 1.5	$ 1.0	$ 0.9	$ (0.2)	$ (0.1)	$ 2.9
Income taxes recovered (expensed)	0.3	(0.1)	(0.3)	(0.2)	(0.2)	0.1	-	(0.4)
	$ (0.7)	$ 0.7	$ 1.2	$ 0.8	$ 0.7	$ (0.1)	$ (0.1)	$ 2.5

16. Business acquisitions

During the six-month period ended April, 30, 2010, the Corporation has made the following acquisition:

Operating sector	Acquisition	Date of acquisition
Marketing Communications	100 % of the shares of LIPSO Systems Inc., a Canadian leader in integrated mobile solutions.	April 30, 2010

Conversys
During the six-month period ended April 30, 2010, adjustments were made to the purchase price allocation of Conversys, acquired January 21, 2009, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition.

Totem (formerly Redwood Custom Communications)
During the six-month period ended April 30, 2010, adjustments were made to the purchase price allocation of Totem (formerly Redwood Custom Communications), acquired November 18, 2008, to reflect the final valuation of the assets acquired and the final determination of the costs related to this acquisition.

The fair value of assets acquired as well as adjustments to prior period acquisitions are summarized as follows:

(in millions of dollars)	Total
Assets acquired	
Working capital	$ 0.9
Property, plant and equipment	0.1
Goodwill (no tax value)	(0.9)
Amortizable intangible assets	4.3
Future income taxes	0.2
	$ 4.6
Liabilities assumed	
Future income taxes	$ 1.3
	1.3
	$ 3.3
Consideration	
Cash paid	$ 0.9
Bank overdraft of the acquiree	0.1
	1.0
Short-term liabilities	2.3
	$ 3.3

Other
For the three-month and six-month periods ended April 30, 2010, the Corporation paid an amount of $1.3 million and $1.8 million, respectively, relating to business acquisitions completed in prior periods. Of these amounts, $0.5 million and $1.0 million were included in short-term liabilities.

17. Commitments

Building and machinery and equipment
The Corporation is committed to acquire machinery and equipment and to complete leasehold improvements in a building. As at April 30, 2010, these commitments represented $28.2 million, including US$1.9 million, €6.5 million and C$17.5 million. Minimum payments required in 2010 and 2011 are equivalent to $15.9 million and $12.3 million, respectively.

18. Segmented information

In November 2009, the Corporation changed its operating structure to strengthen the position of the Corporation in the printing, marketing communications and media markets. Consequently, management has decided to transfer all of its Canadian commercial printing activities from the Marketing Communications sector to the Printing sector. The comparative figures have been reclassified in order to present the information in accordance with the new operating structure.

Sales between sectors of the Corporation are measured at the exchange amount. Transactions, other than sales, are measured at carrying value.

(in millions of dollars)	Three months ended April 30		Six months ended April 30	
	2010	2009	**2010**	2009
Revenues				
Printing sector	**$ 354.3**	$ 379.0	**$ 716.8**	$ 786.0
Marketing Communications sector	**28.3**	25.6	**58.6**	65.5
Media sector	**148.3**	151.2	**284.0**	291.1
Other activities and unallocated amounts	**2.0**	2.6	**4.0**	4.3
Inter-segment sales				
Printing sector	**(20.2)**	(25.1)	**(35.0)**	(43.7)
Marketing Communications sector	**(1.6)**	-	**(1.6)**	(0.2)
Media sector	**(1.1)**	(2.2)	**(5.2)**	(7.1)
Total inter-segment sales	**(22.9)**	(27.3)	**(41.8)**	(51.0)
	$ 510.0	$ 531.1	**$ 1,021.6**	$ 1,095.9
Operating income before amortization, impairment of assets, restructuring costs and impairment of goodwill and intangible assets				
Printing sector	**$ 71.2**	$ 54.2	**$ 136.8**	$ 102.6
Marketing Communications sector	**0.7**	1.6	**3.8**	5.8
Media sector	**26.0**	25.5	**42.3**	37.3
Other activities and unallocated amounts	**(6.9)**	(4.3)	**(10.8)**	(9.5)
	$ 91.0	$ 77.0	**$ 172.1**	$ 136.2
Operating income (loss)				
Printing sector	**$ 44.5**	$ (119.9)	**$ 83.3**	$ (108.1)
Marketing Communications sector	**(3.1)**	(33.1)	**(1.9)**	(30.7)
Media sector	**21.4**	13.1	**33.3**	19.8
Other activities and unallocated amounts	**(7.3)**	(5.7)	**(13.8)**	(12.2)
	$ 55.5	$ (145.6)	**$ 100.9**	$ (131.2)
Acquisitions of property, plant and equipment [(1)]				
Printing sector	**$ 12.3**	$ 64.0	**$ 54.5**	$ 118.7
Marketing Communications sector	**2.6**	0.8	**4.6**	1.5
Media sector	**2.5**	1.8	**4.5**	4.1
Other activities and unallocated amounts	**5.9**	2.2	**7.2**	3.4
	$ 23.3	$ 68.8	**$ 70.8**	$ 127.7
Amortization of property, plant and equipment and intangible assets				
Printing sector	**$ 24.3**	$ 21.6	**$ 49.6**	$ 42.9
Marketing Communications sector	**3.7**	2.1	**5.6**	3.9
Media sector	**4.3**	4.2	**8.6**	8.3
Other activities and unallocated amounts	**0.4**	1.5	**2.7**	2.6
	$ 32.7	$ 29.4	**$ 66.5**	$ 57.7

[(1)] These amounts represent total expenditures for additions to property, plant and equipment, whether they are paid or not.

18. Segmented information (continued)

(in millions of dollars)	**As at April 30, 2010**	As at October 31, 2009
Assets		
Printing sector	**$ 1,472.3**	$ 1,468.2
Marketing Communications sector	**117.9**	113.7
Media sector	**762.0**	793.4
Other activities and unallocated amounts	**136.0**	81.2
Assets from discontinued operations (Note 8)	**-**	93.2
	$ 2,488.2	$ 2,549.7
Goodwill		
Printing sector	**$ 131.5**	$ 131.6
Marketing Communications sector	**32.9**	33.2
Media sector	**507.4**	507.7
Other activities and unallocated amounts	**0.9**	0.9
	$ 672.7	$ 673.4

19. Comparative figures

Certain prior period figures have been reclassified to conform with the current period presentation.